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# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

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16 August 1984

# EAST EUROPE REPORT

## ECONOMIC AND INDUSTRIAL AFFAIRS

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## INTERNATIONAL AFFAIRS

### ECONOMIC SITUATION IN CEMA COUNTRIES IN 1981-83

Budapest IPARI ES EPITOIPARI STATISZTIKAI ERTESITO in Hungarian No 6, Jun 84  
pp 210-217

[Article by Gyorgy Feles: "Economic Development of European CEMA Countries 1981-1983"]

[Text] In 1981 the European CEMA countries set to work on the implementation of the tasks of a new 5-year plan in a period when the extensive sources of growth were already nearing depletion, and the international economic conditions continued to grow worse.

In the second half of the 1970's these symptoms were already discernible, but at that time in the majority of countries of the socialist economic community the productive fixed assets were still powerfully developed, the income of the population at large was growing considerably, international trade and financial relations were expanding, and production was increasing from year to year. At the same time, some countries received large amounts of credit for the development of their economy--first and foremost from capitalist countries.

In the 5-year plan begun in 1981 the focus of the CEMA countries' economic policy was on a more moderately paced but balanced development of economic life, improvement of equilibrium, preservation of the living standard of the general population, or slow growth. The generation and domestic consumption of national income were planned as a function of the equilibrium.

They did slow down the 5-year growth rate of industrial production. At the same time they stressed the updating of product structure, selective development and differentiation in accordance with economic efficiency.

Closer relations between research and production and the practical application of the results of the scientific technical revolution play an important role in the attainment of all these things. Automation and robotics are used better than before in the course of modernization of production processes. An additional essential element of economic efficiency, material and energy thriftiness is among the primary objectives of the countries' 5-year plans.

One of the general characteristics of the 1981-85 plan period is that the countries reduced the rate of total liquid capital to be invested, moderated and in its structure modified their investments. They take significant measures for the creation or expansion of sources of energy and raw material. With emphasis on modernization and expansion of fixed assets, the rate of construction activity diminished. Concentration of resources, a slowdown in implementation time and a reduction in the stock of unfinished investments received greater stress in the plans.

The increased requirements made it necessary to place on the agenda the updating of the macroeconomic management system and the greater exploitation of efficiency factors. For this--in conformity with the concrete socioeconomic situation of the individual countries--they develop their national economic planning system, their financial regulators, their organizational and decisionmaking features and institutions.

The halfway point of the middle-range plan period passed by. The political and--in connection with it--the economic world situation of the 3 years (1981-1983) grew worse in relation to the conditions existing during the period of plan preparation. The meteorological and physical conditions essential for agricultural production took, on the average, a more unfavorable turn than in other countries and in other years. All these things have contributed to the fact that fulfillment of the plan's goals--despite the results achieved--has up until now been realized at a more moderate pace than was generally projected.

Production was impeded by restraint of international developments and by the unsatisfactory evolution--it was more unfavorable than the quality earmarked in the plan--of foreign trade among each other as well as that conducted with developing countries. The governments' material- and energy-saving measures, which were added to the agenda, brought results in management. However, some of the governments were not generally satisfied with the results of the modernizing measures of the intensive development sector.

Among the factors influencing the development of the situation of the European lands belonging to the economic community of socialist countries, we underscore the moderating effect exercised on world trade by the ongoing crisis of the capitalist world economy, on the one hand, and the spread of the crisis to the international money and credit market, on the other hand. The latter, combined with political discrimination, manifested itself in the considerable restriction on the obtainment of credit in recent years by the socialist countries. At the same time some socialist countries, because of the development of their internal situation and their economic possibilities, asked for deferment of loan repayments.

An additional factor, which even in the previous 5-year period adversely affected first and foremost countries disposing of a hydrocarbon basis, is the deterioration of the terms of foreign trade. In the years which have elapsed so far in the decade of the 1980's the European CEMA countries have been able to offset their oil imports only by exporting greater and greater quantities of goods. The consequence of all this is the growth of domestic consumption in a more modest degree than in the previous periods.

In the 3 years of the 5-year plan period which have elapsed so far the European CEMA countries have from year to year increased their produced national income to a modest extent. The national income<sup>1</sup> of the countries in question increased in its entirety by more than 1.5 percent in 1981, by more than 2.5 percent in 1982 and by 3.2 percent in 1983. This pace surpasses the level of GNP growth attained in the same period by the advanced capitalist countries. Between 1981 and 1983, growth in national income was at its greatest in Bulgaria (13 percent), in the German Democratic Republic and in the Soviet Union (12 percent each). In 1983 there was this auspicious incident: in Poland the stabilizing tendencies which began in 1982 continued, and for the first time in 4 years the country's national income increased. This is also worthy of mention if we know that, compared with 1978, the freeze on incomes is still considerable. In 1983 Czechoslovakia also achieved more favorable results than in the previous 2 years. The growth rate of national income dropped in Hungary in 1983; this diminishing growth rate, alongside the industrial production obtained, was influenced by the more modest earnings of agriculture which closed out the year of drought. In Romania, where, in comparison with 1980, a growth of 36 percent in national income was forecast for 1985, they have achieved 9 percent development in 3 years. Table number 1 gives a clear idea of the evolution of national income.

#### Industry

The qualitative and quantitative development of industrial production and the realization of manufactured articles are important factors in the attainment of the middle-range goals of economic policy. An increase in the manufacture of exportable products and the satisfactory provision of consumer articles for the country's inhabitants fall within the sphere of industry's principal tasks in the majority of the European CEMA countries; at the same time it must also guarantee adequate satisfaction at the same time it must also guarantee adequate satisfaction of domestic needs for machines and materials.

One factor which has become universal for industrial production in the 1980's is the greater and greater difficulty of acquiring energy and raw materials, as well as semifinished products. Instrumental in this is the fact that, while cutting down on imports in order to improve the countries' product turnover and balance of payments, they are acting more in concert with the export possibilities. In the interest of efficient and thrifty management they thought things through and via the implementation of newer measures they reduced energy and material use per unit of manufactured product. Moreover, numerous new and important materials, which frequently substitute for imports, are obtained through additional processing from substances treated up until now as waste, or they satisfy the material requirements of newer products in some areas.

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1. Here and henceforward the data pertaining to the totality of the European CEMA countries are computed.

If the European CEMA countries are considered as a whole, industrial production rose roughly 8.5 percent in the first 3 years of the middle-range plan period. The production increase attained from 1982 to 1983 surpassed 4 percent.

It is characteristic for industrial production of the elapsed years that in the majority of countries the growth rate of industrial production for the 2 years following 1980 slackened from year to year. In 1983 this tendency--with the exception of Hungary--changed, and the growth rate of industrial production became more dynamic. Development of industrial production in Czechoslovakia, Poland, Romania and the Soviet Union was at its greatest in this year; the yearly dynamics of production even topped the 1980 developmental rate. In Bulgaria and the German Democratic Republic the growth rate of industrial production was more powerful than that of the previous year, but it did not reach the yearly growth rate of 1980 or 1981. If the last 4 years are examined, the level of industrial production growth in Hungary was the most moderate in 1983.

Growth in the number of employees and workers participating in the industrial production of Bulgaria, Czechoslovakia, the German Democratic Republic, Romania and the Soviet Union in the period between 1980 and 1983 abated in comparison with the preceding 5-year period. At the same time in Poland and Hungary the number of workers in industry was less from year to year. In 1982 the number of industrial employees was 6 percent less in Poland and 4.1 percent less in Hungary than in 1980. This trend continued in 1983.

In the European CEMA countries as a whole, a good 90 percent of the 3-year production growth in the middle-range plan period was assured by a stepup in productivity. Productivity in 1983 surpassed the 1980 level by 11-12 percent in Bulgaria, Hungary and the GDR, by 9 percent in the Soviet Union, by 7 percent in Romania and by 5 percent in Czechoslovakia. In 1983 the level of productivity in Poland was 5 percent lower than in 1980. At the same time this means that 100 percent of the productivity growth in Hungary, the German Democratic Republic and Poland, 85 percent in the Soviet Union, 78 to 76 percent in Bulgaria and Czechoslovakia, respectively, and approximately 70 percent in Romania was covered by the rise of productivity. Table number 2 reflects the development of industrial production.

In the interest of the stepup of intensive development the countries continued the search for raw-material sources at a greater clip than before; they stepped up the development of modern energy sources, new and efficient machines and equipment, as well as technological procedures. In 1983, for example, in Bulgaria 526 industrial manipulators and 337 digitally controlled metal-processing machines were produced and taken into use. In the same year in Czechoslovakia the number of new industrial robots was 1,000, while in the German Democratic Republic 2,700 robots were placed in the service of production and science. The number of industrial manipulators taken into use in the Soviet Union was 10,700.

In the GDR in 1983 in the interest of realizing more efficient production the quantity of energy sources, raw materials and substances used for industrial manufacture decreased by 7 percent. In the Soviet Union in the same year a saving of nearly 2 billion rubles worth of energy sources, raw materials and substances was attained. In the same place it is characteristic of the renovation of product structure that in 1983 the manufacture of 3,700 new products was begun. As in the countries listed, success was achieved in Czechoslovakia, too, in the conservation of energy and material used for production.

Simultaneously with the quantitative increase in production, all the countries took aim at the improvement of product quality. In some countries under the inspiration of quality improvement the products of excellent quality were provided with a distinctive label--at the consumers' request. Quality improvement favorably affects products which are first and foremost for sale on the international market.

#### Production of Individual Industrial Branches

##### Energy Branches

The production, export or import of energy sources has become one of the key questions of economic development in our decade. At the same time, production conditions are more and more difficult, and from the domain of basic energy sources chiefly hydrocarbon products and derivatives are obtainable only at higher and higher prices. They urged a structural modification which seeks solutions that are new and that take into account the consumption possibilities; they also urged a deliberate holding back of the quantity of all these energy sources. Implementation of energy-saving programs which define these tasks and objectives has already resulted in initial successes in years past.

Production of the fuel industry branch in 1983 surpassed the 1980 level by 12 percent in the German Democratic Republic, by 7 percent in Bulgaria and by 4 percent in the Soviet Union. In Czechoslovakia, Poland and Hungary the 1983 production level of the fuel industry was lower than in 1980.

The production increase of the electric energy branch of industry between 1980 and 1983 was between 4 and 9 percent in the majority of countries; in Bulgaria the branch's production during this period rose by 24 percent. In 1983, electrical energy for 1,862 billion kilowatt-hours was produced in all the European CEMA countries. This quantity surpassed by 8.7 percent the 1980 production level. The amount of electrical energy produced in 1983 topped the 1980 production by 22 percent in Bulgaria, by 9 percent in the Soviet Union, by 8 percent in Hungary, by 6 percent in the German Democratic Republic, by 5 percent in Czechoslovakia, by 4 percent in Romania and by 3 percent in Poland.

In 1980 the power plants of the European CEMA countries furnished 20.9 percent of the production of world electrical energy. In the 3 years which have elapsed since then, energy production in the countries in question

developed at a rate greater than that of world production growth, and thus the European CEMA countries' share of world production for 1983 rose to 21.4 percent. The new power plants--above all, the recently established, large-capacity nuclear power plants--put into operation during the period played a significant role in the production increase.

Among the energy sources the significance of coal--which had earlier been forced into the background--especially brown coal, continued to grow in our decade. The amount of brown coal extracted during the plan period in the European CEMA countries increased by a good 6 percent, according to our calculations. Altogether the countries mentioned brought 630 million tons of oil to the surface in 1983. This amount surpasses by a good 2 percent the 1980 extraction level, and at the same time it means that the growth rate of oil production--compared with the second half of the 1970's--slowed down. The output of natural gas in 1983 was 560 billion cubic meters, a good 100 billion cubic meters (by 22 percent) more than that of 1980.

### Iron Metallurgy

Among the European CEMA countries, iron metallurgy production in the plan period's years which have so far elapsed rose by 7-8 percent in Bulgaria and the Soviet Union, and by 1 percent in Czechoslovakia, while the production level of iron metallurgy lagged behind by 5 percent in Hungary and by 15 percent in Poland from the 1980 level. The development of iron metallurgy production is connected with the more limited possibilities of energy and raw-material supplies and with the diminution of world market demand. The countries--while adapting to the foreign market demands--are paying greater attention to the modernization of iron metallurgy's product mechanism and to the increase in the proportion of better-quality, alloyed steel products.

In 1983 the iron metallurgy factories of the European CEMA countries produced a good 210 million tons of steel, more than 150 million tons of rolled articles and 24 million tons of steel tubing. Taking into account all the European countries of the socialist economic community, the 1983 steel production did not change essentially in relation to 1980. At the same time, among the individual countries, the iron metallurgy factories produced 10 percent more steel in Bulgaria in 1983, and 3 percent more in the Soviet Union. With regard to rolled articles, in 1983 the rolling mills of the community's countries churned out 1 percent more products than in 1980. Among the countries, the production of rolled articles during the 3 years rose by 4 percent in the Soviet Union--which gives a good 70 percent of the production of the countries concerned--and by 3 percent in the GDR.

### Machine Industry

With reference to the elapsed middle-range plan period, the machine industry, given its character--a manufacturer of machine tools and equipment is necessary for the technical progress of all the producing branches--continues to be the most dynamically developing branch of industry. Between 1980 and 1983 machine industry production grew by 29 percent in Bulgaria, by 20 percent in the German Democratic Republic, by 18 percent in the Soviet Union,



14 percent in Czechoslovakia and by 11 percent in Hungary. In Poland in 1983--for the first time in several years--production in the machine industry also grew; the industrial branch's developmental rate was greater than that of industry in general, and so the dropoff from the 1980 level abated.

The role of the machine industry comprises the fast-paced modernization of equipment and the renovation of manufacturing technology. In the course of the last 3 years the machine industry's sectoral and product structure has changed considerably. Production of some subbranches developed at a faster clip, such as the manufacture of electrical energy and nuclear power plant machines and ancillary equipment, the production of agricultural machinery and transportation vehicles, and the fabrication of digitally controlled machine tools as well as robotic and automated devices. The manufacture of spare parts increased in several countries, but in many respects they were still unable to satisfy requirements of this nature.

Manufacturing specialization was extended to additional product groups, and in past years several manufacturing specialization contracts concluded earlier were lengthened.

Table number 3 contains the 1983 production of a few of the more important machine industry products.

#### Chemical Industry

The production increase of the--previously as well--dynamically developing chemical industry in the plan period's years which have elapsed so far was more powerful than the industrial production average. If the European CEMA countries are considered as a whole, production in 1983 surpassed by 11-12 percent the 1980 level. With regard to the last 3 years, the annual growth of chemical industry production in the majority of countries was at its greatest in 1983.

A certain shift took place in the chemical industry's product structure in past years as a function of the supply and demand for raw materials: in several countries the proportion of so-called light chemical industry products grew significantly.

Agriculture stands at the center of attention in the 5-year plans of the European CEMA countries. In the plans' objectives and in the interest of modernizing the foodstuff economy, an increase in agricultural output and simultaneously, in accordance with the country's circumstances, a decrease in expenditures (or maintenance at the appropriate level) was prescribed. In this task, which fundamentally influences the population's food supply and its standard of living, an essential role is given to the chemical industry which manufactures indispensable substances in agriculture: artificial fertilizer, pesticides and biological nutriment. The 1983 production of fertilizers and pesticides, in comparison with 1980, developed country by country in accordance with Table Number 4.

In the last 3 years the produced quantity has continued to grow of such fundamental products as sulfuric acid, synthetic ammonia, potassium hydroxide, and calcined soda, plus plastics, synthetic resin and chemical fibers. One of the general characteristics of the production increase of the listed products is that those in the Soviet Union, which chiefly has at its command the raw material source, grew to the greatest extent.

Production and product development were aided in the chemical industry to an ever greater degree by shipments based on expanding bilateral and multilateral specialization contracts. In addition to these, in the chemical industry field, joint research carried out on the basis of scientific/technical agreements of cooperation and the transmission of the research results to the interested countries were considerable.

### Investments

The altered circumstances of economic development keenly affected the countries' investment policy. To improve the balance of trade, a reduction in domestic consumption was carried out chiefly through restraint in investment activity. It is characteristic of the majority of the European CEMA countries that the dynamics of investment expenditures abated in the plan period. Table Number 5 gives a clear idea of the development of investments.

At the same time the slowdown in development made necessary, in accordance with the requirements of the intensive development sector, a modification in the composition of investments. In the majority of countries, greater attention was paid to fixed asset developments which are of a modernizing nature and which streamline production. This meant at the same time a slowdown in construction investments and an increase in the proportion of machine acquisitions.

The countries grant priority to the implementation of projects promoting the guarantee of energy and raw material needs (from new sources) which form the basis of production growth. Moreover, now common is the organizational guarantee of the fast-paced implementation of producing units which assure the increased manufacture of exportable products as well as savings on imports.

Sources: The Statistical Yearbooks and plan fulfillment reports of the CEMA countries.



(2) A nemzeti jövedelem alakulása az európai KGST-országokban

(1)  
1. sz. tábla

Ország (3)	(4) Az 1980. évi	Az 1985-re tervezett (5)	1981	1982	1983	
	nemzeti jövedelem (6)		ténylegesen (7)			
	az 1975. évi (8) %-ában	az 1980. évi (9) %-ában	(10) az előző év %-ában			az 1980. évi (11) %-ában
Bulgária	134	120	105,0	104,3	103,0	113
Csehszlovákia	120	114-115	99,9	99,6	102,2	101,7
Lengyelország	106		87,9	93,0	105,0	86
Magyarország (12)	118	114-117	102,7	102,4	100,5	106
NDK	122	128	104,8	102,5	104,4	112
Románia	140	136	102,2	102,7	103,4	109
Szovjetunió	123	118-120	103,3	104,0	103,1 <sup>a)</sup>	112 <sup>a)</sup>

a) Felhasznált nemzeti jövedelem. (13)

## Key:

- Table Number 1
- Development of national income in the European CEMA countries
- Country
- 1980's
- Planned for 1985
- National income
- In reality
- As a percentage of 1975's
- As a percentage of 1980's
- As a percentage of the preceding year's
- As a percentage of 1980's
- Lengyelország = Poland  
Magyarország = Hungary  
NDK = GDR
- Consumed national income

(2) Az ipari termelés alakulása az európai KGST-országokban 2. sz. tábla  
(1)

Ország (3)	(4) Az 1980. évi	Az 1985-re tervezett	5) 1981	1982	1983	
	(6) ipari termelés az		(7) ténylegesen			
	az 1975. évi %-ában	az 1980. évi %-ában	(10) az előző évi %-ában			az 1980. évi %-ában (11)
Bulgária	133	128	104,9	104,3	104,6	114
Csehszlovákia	126	114-118	102,0	101,1	102,9	106
Lengyelország	126	105	89,8	97,7	106,7 <sup>a)</sup>	93 <sup>a)</sup>
Magyarország (12)	118	119-122	102,9	102,2	100,7	106
NDK	127	131	104,7	103,2	104,1	112
Románia	158	144	102,5	101,1	104,8 <sup>b)</sup>	109 <sup>b)</sup>
Szovjetunió	124	126	103,4	102,9	104,0	110

a) Értékesített termék. - b) Árutermelés. (13)

Key:

1. Table Number 2
2. Development of industrial production in the European CEMA countries
3. Country
4. 1980's
5. Planned for 1985
6. Industrial production
7. In reality
8. As a percentage of 1975's
9. As a percentage of 1980's
10. As a percentage of the preceding year's
11. As a percentage of 1980's
12. Lengyelország = Poland  
Magyarország = Hungary  
NDK = GDR
13. a. Sold product  
b. Commodity production

(2) Egyes gépipari termékek 1983. évi termelése  
az európai KGST-országokban

3. sz. tábla  
(1)

(3) Ország	(4) Szer- szám- gép	(5) Traktor	(6) Mozdony	(7) Teher- vagon	(8) Személy- gép- kocsi	(9) Teher- gép- kocsi	(10) Háztartási hűtő- szekrény
	ezer darab		darab	(11)	ezer darab	(12)	
Termelt mennyiség, 1983 (13)							
Bulgária	16,0	5,9	—	3,1	15,0	.	133
Csehszlovákia	15,3	34,2	653	5,6	177,5	43,2	402
Lengyelország	37,2	55,5	—	6,0	270,2	42,6	534
Magyarország (14)	12,8	0,4	18	—	—	0,2	425
NDK	20,4	3,0	66	3,1	188,3	39,6	763
Románia	59,0	77,1	168	11,9	90,2	.	440
Szovjetunió	189,6	564,0	1828	58,4	1315,4	.	5700
Az 1983. évi termelés az 1980. évi %-ában (15)							
Bulgária	85	87	.	103	97	.	139
Csehszlovákia	95	102	.	77	96	95	114
Lengyelország	132	96	.	40	77	79	77
Magyarország	126	370	.	—	—	122	85
NDK	116	74	.	81	106	107	120
Románia	200	109	.	90	102	.	117
Szovjetunió	88	102	.	93	99	.	96

Key:

- Table Number 3
- 1983 production of some machine industry products in the European CEMA countries
- Country
- Machine tool
- Tractor
- Locomotive
- Freight car
- Passenger car
- Truck
- Household refrigerator
- Unit
- Thousand units
- Produced quantity, 1983
- Lengyelország = Poland  
Magyarország = Hungary  
NDK = GDR
- 1983 production as a percentage of 1980's

(2) Néhány vegyipari termék termelése

4. sz. tábla

Ország (3)	Műtrágya (4)	Növényvédőszer (5)
	termelés (hatóanyagban) 1983-ban az 1980. évi %-ában (6)	
Bulgária	105	110
Csehszlovákia	95	100.6
Lengyelország	104	86
Magyarország (7)	106	128
NDK	99.6	107
Románia	119	121
Szovjetunió	120	116

Key:

- Table number 4
- Production of a few chemical industry products
- Country
- Artificial fertilizer
- Pesticide
- Production (in effective substance) in 1983 as a percentage of 1980's
- Lengyelország = Poland  
Magyarország = Hungary  
NDK = GDR

(2) A beruházások alakulása az európai KGST-országokban

5. sz. tábla

Ország (3)	1976-1980. évi átlagos növekedés (csökkenés)	1981	1982	1983	
		az előző évi %-ában (5)			az 1980. évi %-ában (6)
Bulgária	4.5	110.5	103.6	100.5	115
Csehszlovákia	4.1	95.4	98.4	102.6	94
Lengyelország	- 2.0	77.3	87.9	104.8	65
Magyarország (7)	2.7	94.4	97.6	95.0	86
NDK	5.7	102.7	94.8	99.7	97
Románia	9.8	93.0	96.9	102.9	93
Szovjetunió	3.9	103.8	103.6	105.0	113

Key:

- Table Number 5
- Development of investments in the European CEMA countries
- Country
- Yearly average growth (decrease) from 1976 to 1980
- As a percentage of the preceding year's
- As a percentage of 1980's
- Lengyelország = Poland  
Magyarország = Hungary  
NDK = GDR

12327

CSO: 2500/465

IMPACT OF U.S. TRADE POLICY ON CEMA COUNTRIES DISCUSSED

Warsaw RYNKI ZAGRANICZNE in Polish 10 May 84 p 3

[Article by Teresa Radzimska: "U.S. Trade Policy Toward CEMA Countries"]

[Text] Trade relations between the United States and the countries of the Council for Mutual Economic Assistance since the beginning of this decade have been shaped under the predominant influence of political considerations. The anticommunist attitude of the U.S. administration, directed above all against the Soviet Union, has weighed heavily upon them. It would be difficult not to include the People's Republic of China among communist countries, nevertheless U.S. policy is characterized by a growing liberalization toward her. With regard to the states of Eastern Europe, President Reagan's administration has taken a differentiated approach, trying to use for its own purposes a certain diversity of actual sociopolitical and economic conditions in particular countries.

The fact that the USA ties East-West trade closely to politics is to a large degree the result of its relatively small-scale involvement, in light of its economic potential, in economic cooperation with socialist countries. Even in the best year, 1979, only 3.2 percent of U.S. exports were directed to the European states of CEMA and only 0.9 of global imports came from them. Thus the U.S. authorities can manipulate trade policy in this regard and subordinate it to "higher" goals without having to take into greater consideration the opinion of producers or consumers (with the exception of the influential farmers' lobby).

The thesis that East-West trade relations ought not to contribute to a further growth of the strategic-military potential of the communist bloc has become the leitmotif of President Reagan's trade policy. According to the evaluation of the U.S. administration, socialist countries gained in the 70's large, unilateral benefits from trade with the West. They were offered low interest loans, the most modern technology and subsidized grain. At the same time U.S. politicians forget facts confirmed by their own economic experts proving that economic relations with the East were beneficial also for capitalist countries, including the USA. Socialist countries constituted important complementary markets for their products (especially agricultural) and the

positive balance of payments in trade with the East in the 70's maintained by the majority of Western countries (including the United States) was undoubtedly an element stabilizing the market situation, particularly during the periods of the declining domestic demand. The policy of supplying loans for purchases by socialist countries was not an exception; it was within the rules accepted in world trade and took place during the years of capital boom connected with rising oil prices and a clear increase in the amount of free money in search of attractive investment. In sum, it is an obvious misunderstanding to talk about unilateral advantages.

The U.S. administration, realizing that the results of acting alone cannot be satisfactory, is making serious efforts toward unifying the trade policy of the Western world with regard to socialist countries. These actions are rather reluctantly viewed--as shown by the experience of the past few years--by the governments of other countries (particularly West European) which want to have relative freedom to shape their economic relations with the East. The fact is that for Western Europe, CEMA countries constitute a much more important market than for the U.S. It is difficult to depart now from the strong economic links worked out on the European continent, whose functioning would be put in question if the governments of Western Europe submit to the pressure of their overseas ally. Moreover, many West European politicians treat the economic cooperation with socialist countries as another important element of maintaining peace in Europe. Nevertheless, constant U.S. pressure has already brought certain unfavorable agreements for the CEMA countries; for example, the increase of interest rates on long term loans, and the tightening of control of purchases of potentially strategically important products. We shall look at these matters more closely later in the article.

### Control of Exports

Attempts to impose the maximum limitations on the sale of modern goods and technology to the East Bloc is the most important element of the restrictive policy of the current U.S. administration toward the CEMA states. Using strategic arguments, the government of President Reagan wishes to bring about a technology gap between East and West, which would undoubtedly lead to a change in the balance of forces on a global scale.

The legislation in force allows the U.S. authorities broad room for maneuver. Although the 1979 law on export (the Export Administration Act) accorded high priority to foreign sales by American firms and citizens, it guaranteed the administration at the same time the right to exercise control over exports from the point of view of state security and in accordance with foreign policy. According to this law, the U.S. ministry of trade is obliged to establish the scope of export control with regard to security together with the ministry of defense and to assure the conformity of trade policy with the government's foreign policy, in agreement with the Department of State. The President of the United States, on the other hand, has the decisive voice and is entitled to introduce a partial or total embargo, provided he justifies his moves sufficiently before Congress.

The ultimate extent of the control exercised over export in practice depends then on the attitude of the relevant departments. While the U.S. ministry of trade is more susceptible to the pressure of American exporters anxious to obtain licences for foreign sales, the ministry of defense--whose role has recently been substantially expanded--views the applications for licences exclusively from the strategic point of view, not infrequently to the point of exaggeration. As the result of mutual, often very arduous negotiations and settlements, a yearly list of export articles subject to yearly verification, is established.

A limitation on, or prohibition of, an export can be of general character or apply only to certain groups of countries. Thus the European countries of CEMA were, according to the regulations of this law, divided into the following categories: Q--Romania, W--Poland and Hungary, Y--Albania, Bulgaria, Czechoslovakia, the GDR and USSR. It is estimated that with regard to the countries of the Q and W groups, a less restrictive policy was applied than to the countries of the Y groups. Following the events in Afghanistan, the United States introduced additional important curbs on export to the Soviet Union, and in June 1982 serious restrictions on export to Poland were initiated.\*

Already during the administration of President Carter, stricter criteria for selling licences to CEMA countries were introduced under pressure from the ministry of defense. At the beginning of the 80's, the above-mentioned department prepared a list of so called "critical" technologies, including 16 areas of modern technology (for example, microprocessors, laser technology, navigational and control systems, etc). The U.S. authorities are trying to replace the current registers of goods with such a list. This in practice would cut off socialist countries from access to the technology itself and goods produced on its basis.

The United States realizes of course, as stressed above, that the effectiveness of its policy depends on the introduction of similar export control to Eastern Bloc countries by Western industrial countries. For this reason the U.S. has evidently increased its activity in CoCom (Coordination Committee on East-West Trade Policy). On the initiative and under the pressure of the U.S. administration a high level CoCom session took place in January 1982. As a result of this, for the first time in a decade, a tightening of control over export to socialist countries by all the countries belonging to the committee (all NATO countries except Iceland and Japan) has taken place. Joint lists

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Due to the framework of this article, we are presenting the problem of U.S. restrictions with regard to Poland in a rather limited way. The problem was extensively discussed, among other publications, in the so called "White Book," recently prepared by the Polish Institute on International Affairs and the Institute of Research on Contemporary Problems of Capitalism.

established by CoCom include now 145 positions; out of these, 21 involve arms, 23--nuclear energy equipment, and 101--machinery, equipment and materials for civil production. The new CoCom lists however, are still much more modest than internal American lists. This constitutes the basis for further U.S. initiatives, as for example the proposition of joint "technology lists" submitted by President Reagan during the summit meeting at Versailles in June 1982. Consecutive talks within CoCom, however, did not bring about an implementation of this plan, and the continuous U.S. pressure on its partners has apparently met with discontent.

On the other hand, the embargo on grain sales to the Soviet Union imposed by President Carter at the beginning of 1980 and recalled by President Reagan 3 months after his coming to office was of a clearly political and not strategic character. Its recall was decided again by political considerations, this time domestic ones: the necessity to make good on the promise made by the President in the course of the election campaign. It seems, however, that in the next few years the presidents of the United States will not be able to reach for this means of political blackmail. In the new law on export control which is to be passed in the nearest future, the possibility of using an embargo on grain export will probably be eliminated, an important victory for the farmers' lobby in the U.S. Congress.

Similar to the issue of grain, the U.S. effort to block the construction of the Siberian pipeline ended in a fiasco, resulting in a certain loss of face for U.S. authorities. This happened because the U.S. allies were disinclined to break off earlier agreements with the USSR. The states of the EEC even officially protested in August 1982 against the extraterritorial aspect of U.S. sanctions (the prohibition on selling equipment by European branches of U.S. firms and by enterprises producing on the basis of technologies purchased in USA). After a few months of hubbub, the government of President Reagan finally rescinded the sanctions (in November 1982) and the losses suffered as a result of this affair by U.S. enterprises and their branches are estimated at 2.2 billion dollars.

#### Credit Limitations

The U.S. credit policy toward CEMA countries, which constitutes in fact an important element of trade policy, does not promote the development of East-West relations either. According to the U.S. Congress, only countries which have the most favored nation status [MFNS] can apply for government loans. Thus the Soviet Union, GDR, Czechoslovakia, Bulgaria and--since October 1982--Poland, are deprived of this opportunity. Only Romania and Hungary are entitled to receive American government loans. It must be added that in November 1982, the Export-Import Bank (the main state institution collaborating in the financing of trade transactions) stated that it will not accept any loan programs for Romania because of the decline of that country's payment credibility. In practice then, only Hungary can apply for American loans and as a rule does it with considerable caution.



The denial of credit to CEMA countries was not sufficient; the U.S. authorities were anxious that other Western countries follow suit. The program of credit embargo against the USSR, which the U.S. propagated, included the following postulates, among others: departure from government subsidies for interest rates on export loans, freeze of new government loans, discontinuation of government guarantees with regard to loans made by private financial institutions, and raising the interest rate on government loans. As a result of Western European protests, however, this far-reaching uniformity of credit policy did not take place. After several months of activity, the United States obtained the approval of its partners only with regard to the exchange of information on loans granted to the Soviet Union.

On U.S. initiative and under its strong pressure, however, in June 1982 the minimal interest rates on official export loans within the OECD were agreed upon. The rates were established based on the level of the country's economic development (the value of its gross national product per inhabitant). Thus the Soviet Union, GDR, and Czechoslovakia were classified as relatively rich countries (the GNP of over 4,000 dollars per capita), and the remaining European CEMA countries--in a medium category (the GNP between 680-4000 dollars per capita). As a result of this agreement, the ECC countries raised the interest on government loans to the USSR, GDR, and Czechoslovakia by 1 point, i.e., from 11 to 12 percent for 2-5 year loans and from 11.5 to 12.5 percent on 5-8.5 year loans.

#### Access Barriers to the U.S. Market

The position and competitive capacity of particular CEMA countries on the U.S. market is rather significantly influenced by the fact of granting (or denying) most favored nation status. According to GATT rules, all countries belonging to this system ought to grant to each other most favored nation status. The U.S. Congress and specifically its 1974 Trade Act, however, allow for some departures from these principles. According to the so-called Jackson-Vanik Amendment (the name derives from the two senators who authored the project), the United States does not grant the MFNS to countries with "nonmarket economies" that have restrictive emigration policies in relation to their citizens.

Poland, which already had American most favored nation status when the 1974 law passed, retained it, initially as the only CEMA country. Later, in July 1975 and July 1978, on the motion of the President, the U.S. Congress granted the MFNS to Romania and Hungary respectively. According to the U.S. law, however, the Romanian and Hungarian clauses must be annually renewed, which introduces a great element of uncertainty into mutual trade relations. It is known, for example, that in 1982 the U.S. administration threatened Romania with lifting its MFNS because of its emigration policy (request to repay the costs of studies by citizens leaving the country).

The suspension of the most favored nation status with regard to Poland, which took place on 27 October 1982, was clearly political. The reason given was her failure to meet GATT obligations, specifically the promise made in 1967 while joining GATT that the Polish import from the member countries of this organization would increase annually by at least 7 percent.

Romania is the only state within CEMA which enjoys in the United States--according to the 1974 Trade Act--the status of a "developing country." The reasons are that it has a national product per capita below the defined ceiling, it is a GATT and IMF member and has been granted the MFNS. As a result, Romania exports to the United States many groups of goods that totally bypass custom tariffs. This fact undoubtedly has played an important role in the development of Romanian exports to the United States, the value of which in 1983 exceeded the total sales of remaining CEMA countries (excluding the USSR).

The nature and means of U.S. trade policy toward CEMA in the past few years described above could not happen without influencing mutual trade exchange. After 1979 when USA-CEMA trade turnovers reached their highest point (7.5 billion dollars), their value began to decrease fast and, not counting 1981, closed with the figure of only 4.2 billion dollars. Let us also add that on the part of the CEMA states some factors unfavorable for the development of trade with the United States, such as a limited payment capacity, weakening of the economic development rate, and reduction of investment programs, have also occurred.

12270

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## SHORTCOMINGS IN WAGE FUND USE CRITICIZED

Prague HOSPODARSKE NOVINY in Czech 1 Jun 84 p 4

[Article by Eng Jaroslava Panusova, Main Institute for the CSR of the Czechoslovak State Bank: "Deficiencies Below the Surface"]

[Text] One aspect of Czechoslovak State Bank operations is its participation in the regulation and control of wage developments. It checks that the relevant limits on wages are being maintained and if they are exceeded it applies interest sanctions, promotes efficient use of labor and lower wage demands for repetitive processes, and evaluates the development of the productivity of labor and its contribution to increases in social resources. In this article I wish to acquaint our readers with some information on wage developments which we acquired last year through okres branches, kraj administrations and trade union departments.

Development of the wage fund in the Seventh 5-Year Plan is directed at the following goals: to ensure a correct proportion of distribution of national income and at the same time through enterprise incentive systems to support the interests of organizations in the desired direction of meeting the planned goals both in efficient use of all resources and in the structure and quality of values produced. This broad direction of incentive systems has required a complex regulatory system for our conditions and an annual modification and fine-tuning.

### Mainly Within the Rules

The results of maintaining the established limits on wages looked very favorable from the beginning of last year. The economic sphere showed great relative wage fund savings: The number of organizations exceeding the established limits on wages, against which the superior organs and the bank are taking a stricter approach, has gradually been minimized. In the CSSR in 1981, 49 economic organizations exceeded the appropriate wage limits by a total of Kcs 900 million, in 1982 it was 34 organizations by Kcs 230 million, and last year it was only 13 organizations by Kcs 190 million.

Although there were no obvious negative deviations, the growth in wages still substantially exceeded the intentions of the state plan. At the end of last year, when we had already managed to reduce the growth in wages, its planned

growth was exceeded in the CSSR by Kcs 2.2 billion. Organizations have not used up all the possibilities for holding this down. Much greater sources (relative savings) of wage funds were created than were predicted for the planned shares in economic results (by Kcs 1.4 billion). At the end of 1983, the bonus funds still had remainders of Kcs 8 billion.

The more rapid wage growth thus took place fully within the planned relevant limits on the wage funds and the rules for regulating wages. There was substantially no tightening up of the system last year, which mainly consists of reducing the contribution from the higher technical level, the top quality, and production of fashion and luxury goods along with increasing the effect of bank sanctions on the usable amount of wage funds.

The reason for this was the especially favorable fulfilling of the targets for the 1983 plan, resulting mainly--and this should be evaluated as a positive factor--from increased economic development, but also in many cases from less demanding plan goals. In return for exceeding the plan in decisive indicators for basic and incentive elements of the wage funds and meeting the goals for determinate factors, last year enterprises in the CSSR could raise the usable amount of wages by Kcs 1.9 billion (that is, by 1 percent), while in 1982 the figure was only Kcs 0.8 billion (that is, 0.45 percent).

In spite of the rate reduction carried out, the volume of items included (arising from, among other things, fuel and energy savings achieved) did not go down. The higher excluded portions, mainly because of bank sanctions (in 1982 roughly Kcs 0.2 billion and last year Kcs 0.4 billion), could not substantially influence the results. The economic sphere created such a wage drawing area that almost Kcs 0.9 billion (0.5 percent of the usable amount of the wage funds) was not utilized either for paying wages or for contributions into the bonus funds.

#### Wages Are Not Very Sensitive

Last year the economic organizations acquired a claim to more rapid wage growth by exceeding the planned goals. So far, so good. But higher wage demands are not always in harmony with the desired production structure. Exports to nonsocialist countries were sometimes met at the price of shipping out products with a higher proportion of raw materials and a lower level of processing than desired. Despite a planned reduction, the planned investment volumes were exceeded, among other reasons as a consequence of the need to make use of production above the plan, mainly in the machine tool field which did not find the expected market abroad. Deliveries for the domestic market exceeded goals, but in many cases they were different in nature from the desired structure.

The dynamics of production above plan with deviations in its structure showed up in the large growth in inventories over the course of the year. Developments improved by the end of the year, but even so the planned use of supplies in industry was not met.

The bank reacted to the problems with supplies by stricter control procedures and increased interest rates. With the overall favorable climate for creating wage funds, however, it had no noticeable impact on the wage sources. In 1983, bank sanctions reduced the usable volume of wage funds of economic organizations in the CSSR by roughly Kcs 270 million, that is, by 0.14 percent (in 1982 the figure was Kcs 130 million, or 0.07 percent). On the average, then, the influence of bank sanctions was insignificant even after they were increased and it became even more noticeable that it did not influence the material interests of the organizations.

Investigations showed, for example, that the excluded items were reduced after bank sanctions in the first to third quarters of 1983 in terms of the usable amount of wage funds by 0.94 percent at the Kovo Cheb national enterprise, by 0.77 percent at Kovo Bzenec, by 0.46 percent at the VHJ [economic production unit] Czechoslovak Brickworks Brno, and by 0.38 percent at VHJ Crystalex Novy Bor.

The wage regulation system is not very sensitive to the development of some internal factors of enterprise efficiency. Even last year there was no change in the tendency toward underutilization of the labor force and basic equipment, and despite certain improvements the goals were not met in utilizing inventories.

Although we succeeded in exceeding the planned increase in productivity of labor by adjustments in value added, last year the proportion between growth in productivity and the average wages established by the state plan was not maintained. There were deviations in a number of enterprises. In evaluating the results for 1983, for example, our branch banks discovered that the planned relationship between growth in productivity of labor and average wages was not maintained by more than one-quarter of all enterprises in the CSR's centrally directed industries.

An analysis of the factors involved in the growth in productivity of labor by adjustments in value added showed that successful fulfillment of goals in productivity did not at all mean that the intensification factors were being utilized in the enterprises to the desired degree. For example, of a group of 88 organizations of the centrally directed industry and construction category where an analysis was performed using an automated procedure in accordance with an agreement between the Czechoslovak State Bank, the Main Institute for the CSR and the CSR Ministry of Labor and Social Affairs, only 10 percent were not meeting the planned productivity.

Despite this, in 26 percent of the enterprises the labor productivity in gross industrial production dropped in comparison with 1982, hourly productivity went down in 23 percent of the organizations, in 78 percent of the enterprises the use of working days got worse, in 45 percent use of work time dropped, overtime increased in 43 percent of the organizations, and shift work dropped at 43 percent of the enterprises. Developments in the efficiency of basic resources were also unsatisfactory.

These disproportions and deficiencies point out that the viewpoint of maintaining the established limits on wages is not a sufficient criterion as to the proper development of wages. At the same time, it confirms that the stricter measures taken since last year are right on target.

#### Planned Inequalities

The lack of stability in the plan over the course of the year has an unfavorable influence on the effectiveness of the wage regulation system. According to studies by the bank carried out at 12 VHJ's, the extent and number of changes in 1983 were less than in the previous year, but in the majority of cases it involved a reduction in the plan. Among the VHJ's studied, in 1983 there were 14 adjustments in the plan for adjustments in value added and 11 adjustments in the plan for returns on production funds.

For example, at the VHJ Czech Automobile Plants the plan for returns on production funds was reduced three times last year, and twice at the VHJ Vlnarsky Industry. On the other hand, the plan was increased twice for returns at the VHJ Czech Rubber and Plastics Plant, but despite this the actual results were substantially more favorable (the last plan was for 12.88 percent and actual results were 13.72 percent).

In 1983 the number of cases and extent of exceeding established wage limits which took place was substantially lower than in preceding years, but their relative amounts in individual cases were substantially higher. Exceeding the limits by more than 10 percent of usable amounts of wage funds was indeed the rule rather than the exception.

During the course of last year the bank took stricter actions against organizations exceeding the established limits for wage funds (up until the first half of the year in the CSR only organizations directed by the national committees and agricultural organizations had excesses). After more intense interest pressure by the bank (that is, not only increasing sanctions, but also increasing actions limiting the organizations access to credit, which we consider more effective), the number of organizations exceeding the established limits for wage funds dropped substantially and most of them were equalized.

In the first half of 1983 in the CSR 28 organizations exceeded the established limits for wage funds, while in the second half these excesses, with the exception of the Jenec Agrochemical Enterprise, were equalized. That enterprise had such serious production and organizational problems that it succeeded only in reducing the excess to 71 percent of the usable wage amounts.

In the CSR, however, there have appeared new cases of significant wage limit overrun. Housing difficulties at the VHJ Czechoslovak Brickworks resulted in exceeding the usable amount of wage funds by Kcs 97.6 million (by 29.3 percent), and deficiencies in organizational and management work were again the reason for exceeding wage limits at Obun Prague (by 0.9 million korunas, or 12.1 percent).

These disproportions could be "hidden" until the end of the year, which shows the weak link in the wage regulation system, the imbalances in detailing the plan by quarters. More suitable plans at the starting period of the year make it possible for organizations to postpone unpopular actions taken when the established limits for wage funds are exceeded until the last possible moment. Unfortunately, the most significant excesses are for the most part finally "objectively justified." It is mostly not possible for them to be fully covered from the wage fund plan for upcoming years (according to Federal Ministry of Labor and Social Affairs Decree No 143/1980 of the SBIRKA). For example, the VHJ Czechoslovak Brickworks had an unincluded item established for exceeding the set wage fund limits to the amount of 6 million korunas (6.1 percent of the excess). Another Kcs 9 million will be covered from specified departmental reserves.

#### The Path of Least Resistance

The level of enterprise plans for labor and wages for 1984 bears testimony to the fact that often enterprises persist in their nonintensive approach to utilization of the labor force. The enterprises do indeed maintain the prescribed established limits for wage funds and goals in adjusted value added, and the return on production funds (in some cases other decisive indicators for directing wages as well) is taken up and in many cases made stronger, even when the advantages of counterplans are not recognized at the stage of definite planning.

Efforts at intensification for the most part do not show up in the demands for numbers of the labor force, however. In comparison with the informational descriptions of superior organs, industrial enterprises in the CSR are planning for about 1,500 more workers. Their requirements have been confirmed, but in many cases it is not realistic to expect them to be met. Instead of the enterprises planning a rational utilization of the labor force, they have taken off from the dynamics of the average wage and created an area for differentiation of wages as required by system measures, so that the specified growth in average wages is being constantly disregarded. In a number of cases they also invalidate the contributions of the approved counterplans for the growth in average earnings.

For example, in the South Bohemia Kraj, industrial enterprises plan a 0.6-percent increase in the number of workers (last year employment increased by 0.1 percent), which would essentially mean a reduction in average wages of 0.2 percent (last year there was a 2.3-percent increase) with a 5.1-percent increase in productivity of labor. The industrial enterprises in the North Bohemia Kraj again plan a need higher than the specifications by 668 workers, which would reduce the specified wage increase from 0.3 percent to 0.1 percent.

The planning proportions thus signal that this year as well the enterprises will request changes in the planned targets by way of freeing up reserves of the established limits of wage funds. Maximization of the needs for the labor force is one of the tools used to justify these requests.

Information available to the bank to date testifies to the fact that even when maintaining the established limits on wage funds there can be deficiencies in this area which result in disruption of the national economic proportions of wage development. It is therefore not enough to deal just with the organizations which exceed the wage limits. The bank for this reason from 1 January 1984 expanded the criteria for effectiveness in credit use, according to which a difference can be made between credit and interest approaches in the planned relations between growth in the productivity of labor and average wages. It will then not only evaluate the development of productivity of labor according to meeting planned targets, but also when necessary will take a look at the factors involved in its growth.

In participating in the regulation and control of wage development, the bank will not only analyze the reasons for exceeding the established limits on wage funds and use interest approaches to remove those reasons, but will also study the motivational influence of new measures in the wage regulation system.

6285

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PROBLEMS IN FOREST MANAGEMENT DISCUSSED

Prague HOSPODARSKE NOVINY in Czech 18 May 84 p 1

[Article by Eng Frantisek Kalina, minister of forestry and water management of the CSR: "The Forests Are Not Just in the Hands of the Foresters"]

[Text] Demands on the forest as a source of wood product raw materials and as an important part of our environment are constantly growing. On the other hand, however, industrial and energy production to a considerable degree unfavorably affect the natural conditions, particularly by emissions, which are the basis of existence of the forests and their products. These unfavorable influences are still increasing because of emissions and acid rain carried over long distances. This article will discuss some of the basic problems of forest management which arise from this situation.

Since 1945, we have gotten used to the idea that the extent of our forests is constantly growing. At this time in the CSR it has reached 2,626,000 hectares and the land is 33.4 percent forested. Forty years ago we had 24 million hectares and only 30.1 percent of the area was wooded. By way of comment, at the beginning of the last century it was not quite 2 million hectares. But our per capita level is only 0.25 hectares of forest, which means that in terms of this factor we are noticeably below average (the world average is 0.88 hectares and in Europe it is 0.31 hectares).

In recent years, the upward trend in forest area has been broken. In 1982, the loss in forested ground exceeded growth by 700 hectares. The reason for this is the constant demand to take over forested ground for all kinds of capital construction and extraction of minerals. The biggest users, however, are water management and power line construction. Increased protection of the agricultural land is also a factor here since it makes it necessary to make more deliberate decisions about turning over this land for forestation and, on the other hand, there are cases where the forest is removed to acquire agricultural land.

If we want to preserve the currently forested land and by this also to keep an adequate potential for wood production and the other functions of the forest, we must carefully protect the forest land resources and utilize all legal decrees and other regulations for that purpose. We definitely do not have in mind that we would not in any case take over forest land for

other purposes. We consider some requests for deforestation justifiable from the standpoint of society as a whole, such as, for example, power line construction, projects of particular national importance, and water management. But in other cases we will always require thorough evidence that the enterprise construction or facility will, in its effect on society as a whole, exceed the value of the production and other useful functions of the forest.

It is very hard to remain objective in these relationships and, so that it does not depend on just the viewpoints and positions of the two partners (the forest and the organization requesting deforestation), we consider it necessary in complicated cases to request adjudication by the highest organs.

In this connection, I would like to quote from the Proclamation of the CPCZ Central Committee, the Central Committee of the National Front and the CSSR Government on the 40th anniversary of the culmination of the national liberation struggle and the liberation of our country by the Soviet Army: "This country, which is our homeland, in which is embodied the work and dreams of entire generations and whose form today is to a decisive degree a result of our socialist efforts over the past 40 years, is our common property. Its shape tomorrow and the happy future of our people will depend on us and our efforts today."

The biggest problems for forest management for a long time have been the harmful effects of industrial emissions. Currently they have caused noticeable damage to 26.3 percent of the vegetation, especially in the northern regions of Bohemia and Moravia. There are great differences in the degree of damage, however, according to the emission concentrations, the length of time that they have been having an effect, the soil and climatic conditions, and the make-up of the woods. Of the above area, 21.6 percent is slightly damaged, 2.4 percent has moderate damage, 0.6 percent is badly damaged and 0.5 percent of the area is dying.

Industrial emissions cause not only the death of needles, decreasing the assimilation area of the trees, but also unfavorably change the chemical properties of the soil. All of this together reduces the vitality of forest vegetation, limits growth and therefore production, and weakens the water management, soil conservation and recreational functions of the woods. There is an entire complex of harmful effects with which forest management must deal. The greatest contribution to improving the situation could of course be made by limiting the harmful emissions right at their source. But, for the time being, the established goals cannot be fully met and for the near future we will continue to have to deal with serious problems connected with the development of our economy and other negative influences of the process of civilization.

The most difficult task of forest management in the area of strongly harmful emissions is reforestation of extensive areas from which the dead vegetation has been removed. In these clearings it is most often necessary first of all to adjust the soil conditions, especially the acidity, which demands great

quantities of powdered limestone, up to 5 tons per hectare. There are likewise often cases where the soil must be drained. The main prerequisite for reforestation is enough seedlings, and therefore we are building modern, large nursery operations, which by the end of the 5-year plan should produce 200 to 220 million high-quality planting seedlings annually. With regard to the future, when we assume that the emissions will be substantially limited, we are planning a whole range of actions. For example, we are setting up geneological archives, seed trees and plantations so that we can get seedlings of the original trees and return them to their proper place.

Work connected with restoring the disrupted natural balance is connected with a significant growth in cultivation operations. When we take into consideration the fact that in all our forests we are striving to increase their biological value and to fulfill most effectively the other functional uses, then it necessarily follows that there will be developmental work on the biotechnical balance. In this program we can include the expansion of production by genetically evaluated seeds and seedlings, introduction of highly productive and emission-resistant foreign trees, improvement of the forest soil, increased care of plantings and young vegetation, improvements in forestry technology, damming swifter streams, and efficient overall control of water management and forests important for recreation.

The vitality of forest vegetation, that has been reduced by emissions, has many undesirable consequences. One of these is the catastrophic multiplying of insect pests. Some also take the viewpoint that the increase in damage caused in the forest by the wind is connected with the reduction in the root system because of the increasing acidity of the soil. In the past few years, for example, there has come about a gradation of bruised, flat-ridged, and saw-toothed. We have successfully dealt with this danger by using effective chemical treatments. Last year, however, because of drought and preceding snow and wind disasters, there were many more bark problems. The first half of this year is decisive in suppressing this danger.

Another important problem for the further development of forest management is logging and improved use of wood raw materials. Currently in the CSR we log over 13 million cubic meters annually. In volume taken per hectare of woods (5 cubic meters), we are among the leading countries in the world. We are able to get so much because of the large supplies, which in 1981 were 535 million cubic meters, the average supply per hectare of 204 cubic meters, and the age structure of the trees. Another decisive factor has been the increase in wood supplies, which has been 3 percent annually and has been greater than the amount logged off. Because of emissions, however, the growth in wood has begun to drop and this tendency will continue over the long term. The extent of damaged forests will probably also increase. If we want to preserve adequate wood supplies and continue logging under these circumstances in the future, we must somewhat reduce the logging of coniferous trees as early as the Eighth 5-Year Plan.

We must also rationally mobilize all available reserves of wood which we have in the forests. We will therefore first of all improve the classification of raw materials according to their industrial use. Thorough application of

this principle should reduce the amount of firewood. Even the slash left over after logging should not be ignored, especially after storms, nor should material from attempts at cultivation in the younger growth. This is mainly thin wood, widely scattered about the whole area, so that only a small part of it can rationally be utilized. We therefore consider it realistic to work up to an annual usage of this apparent waste of about 600,000 cubic meters. This approach will also help to clean up the forest.

These conditions under which we are now managing the forest and the new tasks as well both have an effect on the economics of the department. The main source of revenues is logging, which will be dropping with the predicted reduction in output as a result of limited or banned exports. It will also be reduced partly because of the quality and assortment of the inventory getting worse (even the younger trees with small trunks are dying off) where raw material is taken from extremely damaged areas, and partly because of an increase in delivery of smaller wood from the logging slash and attempts at cultivation in the younger growth.

On the other hand, at the same time there will be an increase of demands for operations by the department. There is already an effect from the growing volume of work connected with restoration of trees damaged by emissions, with improvements, with forest protection, with ensuring its water management function, with mobilization of smaller trees as raw material, and with cleaning up the woods. This is mostly work which does not bring in any earnings and is very labor intensive.

Taken all together, these influences will result in forest management going gradually from a slightly profitable department to one operating at a slight loss. The decisive moment will obviously take place in the Eighth 5-Year Plan. The prepared adjustment in wholesale prices of wood raw materials in 1985 will just put off the situation, but cannot prevent it unless the prices are raised further. Otherwise we could solve the problem by subsidies. It thus appears that our society will have to devote more resources than heretofore to forest reproduction as a source of raw material and as an important part of the natural environment.

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CSO: 2400/378

BIOGAS AS NEW ENERGY SOURCE

Prague ZEMEDEL'SKE NOVINY in Czech 2 Jul 84 p 1

[Article by Frantisek Prchal: "Sources Get Together"]

[Text] Beginning next year we will start serial production of equipment to utilize biogas. This broad statement in itself does not reveal the contributions of a wide range of truly useful initiatives for society as a whole that in many cases are brought together when searching far afield. The story of biogas is a good case in point.

In 1980 representatives of South Bohemian unified agricultural cooperatives got together in Pardubice for a kraj meeting of the Czech Scientific and Technical Society in order to consider possibilities of utilizing unconventional energy sources. Somehow a reference to Eng Zilka from Oloumoc, who is working on biogas, came up. This raised some interest, since some agricultural cooperatives were playing around with this idea themselves. A joint effort by five enterprises--the unified agricultural cooperatives of Rosice, Vysocina, Bylany, Ronov and Nacesice--therefore immediately took over the whole matter. Their representatives went to Eng Zilka and found out that he is mainly working on an aerobic treatment of cow manure. With its usual storage out in the open, it loses up to 70 percent of its fertilizing capacity in a few days, to say nothing of the negative effects on the environment. But if it is stored in a closed area, in just 25 days bacterial action takes place which produces fertilizer material perfect for improving humus formation in the soil. As a by-product or waste in this process, water and a mixture of gases, mostly methane and carbon dioxide, are produced. Methane in particular has many uses. From one head of cattle one can get up to 370 watts of continuous hourly output. This can be used for heating and cooling the barns, heating water or driving fans to dry hay.

As was already said, other cooperatives had experimented with the use of biogas, more or less successfully. However, they ran into the problem of a suitable boiler in which to burn it, since biogas does not have a constant composition and it simply does not burn in the usual type of furnace. But a suitable boiler did exist. Under the title "A Strange Boiler," an article had just appeared in our newspapers about the invention of contact-kinetic burning by Engs Mach and Dusek. Of course, this did not escape the attention of the South Bohemian farmers. They contacted both engineers, who welcomed

them with open arms, since they had been waiting in vain to find an application for their invention. After totally unofficial preparation of the boiler in the Rosice Gasworks, a product was born which belongs in the world-leader class in that field. They named it Golem and it was successfully exhibited last year at the Breadwinner's Country exhibition.

The game was only half won, however. They had their boiler, but they did not have anyone to produce it. It was here that they got enormous help from RUDE PRAVO which published the entire problem and got the first responses from parties interested in producing Golem, so, next year they will start with serial production. In the meantime, however, at Ronov and Doubravou the first semi-operational use of biogas will start in the fall.

The incident with the biogas is thus almost at an end. It was carried to a successful conclusion by the efforts of many people. There was no unusual heroism by a few exceptional people, but it was a matter of ordinary, normal life. Initiative was taken which forced practical action for which we should be thankful.

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CSO: 2400/378

ECONOMISTS MEET TO DISCUSS FUTURE STEPS

Hoos, Planning Office Speech

Budapest FIGYELO in Hungarian 5 Jul 84 pp 1, 3

[Text] Pecs, the city in the foothills of the Mecsek, is the home of the Economists' Congress this year, between 6-7 July, where the participants will hear lectures and reports on the connections between economic effectiveness and economic guidance.

At the general session, Lajos Faluvegi, deputy prime minister, Laszlo Kapolyi, minister of industry and Jeno Vancsa, minister of agricultural and food industry, will give lectures. The congress will continue its work in four sections. The topics of the lectures in the sections are discussed in the following.

The Changes in Regulation

The lecture of section 1--on the problems of planning, regulation and prices--will be given by Janos Hoos, undersecretary of the National Planning Office [OTH]. The major points of his debate opening address are reviewed in the following:

In practical activities, the improvement of effectiveness and the increase in profit-yielding capacity must be increasingly brought to the forefront because advancement cannot be lasting and balanced without them.

Naturally, with every change, the political and social-political effects and also the modifications occurring in the interest relationships should be weighed because the individual measures are of necessity coupled with the re-grouping of the income positions. Because of it, planning and regulation must occasionally arrive at a satisfactory compromise taking into account the established and changing interest structures.

The essential functions of national economic planning will not change in the future either: they will continue to be a basic tool for establishing and laying the ground-work of economic policy. However, this function must be fulfilled more effectively than before.

The more important requirements for further advancing income regulation in the enterprises are:

--The disburseable enterprise income should depend, to a significant extent, on the effectiveness of the enterprise activity measured on the basis of market value judgments, and the possibilities of enterprises for development should be more forcefully differentiated than they are today, on the basis of their effectiveness. Since the domestically expendable income will not expand significantly in the next few years, the necessary reorganization can only be accomplished by internal re-grouping. The further development of the price system is a condition for more forceful differentiation based on effectiveness.

--A satisfactory and relatively stable rate must be worked out for income sharing between the state and the enterprises, but according to projected plan calculations, the very high quota of net-income centralization cannot as yet be lowered in 1985-86.

--Substantial changes are needed in evaluating the resources which can be achieved by increasing the expenditures associated with human labor. (Nominal wages, enterprise--and later individual--income diversions proportional to the human labor.)

The increasing burdens associated with human labor are decisively important insofar as they moderate the excessive demand for one of the most important resources and the disproportion in the evaluation of the production factors, and they also enhance cost sensitivity.

--The output requirement from the means of production should also be asserted through the tax system, encouraging the more effective and more thrifty management of the available means of production. There should be a parallel discontinuation of those elements of income regulation (annual withdrawal of developmental funds, construction tax, etc.) which do not function to satisfy the goal and blunt the differentiation according to effectiveness.

--There should be a gradual halt to the centralization of amortization. In the new system, amortization must be a function of the actual return, that is, the enterprise should be allowed to charge only as much decrease in value as is acknowledged by the market through the price of the product.

--The promotion of financial interests is one of the important requisites of rational and long-range management.

The practical enforcement of the above-mentioned requirements for enterprise income regulation will require a longer period and can only be accomplished in several steps. The steps affecting the conditions of enterprise management must be announced and accomplished under the sign of differentiation but, in the interest of the gradual reorganization and to avoid central interventions which give the impression of going backward in organization, neither can elements of levelling off be avoided.



With respect to the changes which could be introduced in the first step, the following must be decided in the near future:

--Whether the contributions to the city or village developments must be paid as a set percentage of the profit or of the wage.

--The extent of the increase in wage benefits.

--The lowering of the profit tax in order to promote an interest in profits. Can it be done in 1985 or only in later years?

--Introducing, into the competitive sphere, a high income contribution and a high income tax financing developmental goals for society as a whole. The order of magnitude of the high income contribution or tax would be 1-2 per cent, its source would be the taxed profit.

--Introducing some tax on payments aimed at accumulation, as a means for basic regulation of prosperity.

Of course, the general model cannot be validated over the entire range of the economy. At the same time, the application of divergent elements or measures should be permitted only because of the nature of some activity (for instance, agriculture).

The changes in regulation and the increased role of profitability will create a relatively more favorable situation for effectively managed enterprises capable of flexible adaptation. In the case of enterprises working at losses or lacking in funds, primarily those solutions must be applied which had been little used before: sale of fixed assets, reduction of superfluous capacities (including manpower) and changing activities, that is, re-grouping and mobilizing available resources of the enterprise.

#### Institutional System of Capital Movement

Section 2 will deal with the problems of capital, capital allocation and the banking system. The introductory lecture will be delivered by Matyas Timar, president of the Hungarian National Bank [MNB].

Further development of the movement of capital and its institutional system is part of the Central Committee program dealing with the further development of the economic guidance system.

In the course of the years since 1968, the circulation of capital has remained basically centralized in spite of the decentralization trends in the economic system.

The regulation applied in recent years induced the managing authorities to invest their capital as soon as possible within their own field, eventually ignoring the aspects of profitability. The guidance of capital through essentially vertical channels is limited to increments and--in spite of the declared principles--results in a levelling of income. The solution to these problems is promoted by the development of the institutional conditions of

capital movement, facilitation of a horizontal flow of capital among the enterprises and the increasing role of bank credit in regulating the economy. The steps planned have promoted the acceleration of the income-producing capacity of the economy and the change in structure because they created a form of movement to release the credit which today is uneconomically tied down, to reinvest it in more profitable areas.

Restructuring the banking system in the interest of promoting a more effective movement of capital, on the one hand, requires the separation of the central bank and commercial bank functions within the National Bank, thereby strengthening both.

On the other hand, at the other financial institutions, there is a need to develop the entrepreneurial character of their activities in the interest of reinforcing market relations. It is also conceivable that, for well-defined purposes, new finance institutions or special monetary funds functioning in the form of finance institutions will be started.

Further advancement of the domestic banking system cannot mechanically copy the capitalist system. The Hungarian economic mechanism is unique also in comparison with the majority of the socialist countries and, therefore, the experiences of their financial system cannot be utilized here except through an appropriate "filter." Consequently, we must develop a monetary institutional system in tune with the Hungarian realities. Modernizing of monetary policy methods is a step forward.

The credit policy guidelines sanctioned by the government continue to be the basis for central bank regulation. Central bank regulations must guarantee that lending is dependent on these sources of the lending agencies, on the accounts deposited with them and on the central bank or other sources of refinancing. In tune with the projections of the national economic plan, we wish to enforce the observance of the quantitative limits to lending through the refinancing practices of the central bank. When the new order of commercial lending develops, the promissory note, linked to commercial credit, is adopted domestically as a means of regulation through the central bank. With the expansion in securities-trade, the amount of money in the national economy can also be regulated by selling and buying securities through the central bank or by its loans. It is also among our plans to enlist changes in the level of the central bank interest rates for purposes of revitalizing or slowing down the economy.

In the course of central bank regulation of the financial institutions outside of the MNB, attention must be paid to attune national economic savings to capital market investments. For instance, if part of the enterprise savings accounts is regrouped to other finance institutions, then this saving must be considered in the course of refinancing the credit placements by commercial banks or by other banks outside of the MNB.

In the interest of avoiding double financing, when planning the money supply and demand, the allocation of accounts different from the current mode--among several banks--must be taken into consideration or, in the absence of it, it must be considered that the MNB must adjust the credit lending capacity

of the financial institutions to the plan projections. The reserve rate system can be one of the means to use.

A reinforcement of the business character of lending within the MNB requires the reinforcement of the freedom of the lending organs to make decisions. In our thinking, in addition to the two credit branches established at the start, the Institute of Budapest, the Enterprise Fund and the Innovation Fund would also convert to independent (sister) banks. Broader than the current credit lending rights would be given to the regional bodies of the MNB. In addition to reorganizing the decision-making jurisdictions, in order to develop commercial bank functions managed by normative issuing bank means, we are thinking of developing the kind of credit guidance where, on the one hand, the partnership relation between the bank and the entrepreneurs is indeed realized and, on the other hand, the loan will promote the realization of the best investments. According to our longer-range plans, we expect a further expansion of the active, passive and neutral banking operations by the lending organs which will serve to strengthen the market, the horizontal associations among the enterprises.

The successful accomplishment of these largely depends on the further development of the planning system, and of the price, wage and enterprise-income regulation. In the totality of the planned economy, the financial and, within it, the monetary sphere can only have a relative independence.

#### Income Regulation is Being Modified

In section 3, Albert Racz, general secretary of the State Wage and Labor Office, will give a lecture on some timely questions of labor force management and the wage system.

Increasing effectiveness is the key problem in developing the national economy; it requires the prudent management of the production factors and the practical adjustment of the interest conditions influencing the social and economic processes. The labor force is one of the most important production factors and it is up to us at what level, in what composition and under what conditions we utilize it. This production factor is the qualitative prerequisite--if not the determinant--of how we exploit the available material resources and what level we achieve in the field of technological and technical development.

Full employment will have to be assured also in the future. But its practical realization gets modified with changes in the socio-economic conditions. The individual can increasingly expect that his work place could change in the course of his life and that the task to be accomplished by him will be modified.

But the other side of the coin is that the state should provide the necessary conditions and equipment systems for full employment and for satisfying the individual demand for a job. First of all, the necessary education and training structure must be developed. The basic tasks are securing job possibilities for youths who finished school and are starting on a career, and organizing the re-training and further training of the already employed

workers. In addition, the labor exchange is functioning as an institutional system which helps the citizen to select a work place commensurate with his needs and, at the same time, it also aids the employers in organizing the necessary work force.

The assurance of full employment is the task not of the enterprises but of the state. But the employer is the enterprise, cooperative or institution. The level of employment and the effectiveness of labor force management depend on the work of the management units. Thus, effective labor force management is the task of the management units but it is also influenced to a non-negligible extent by the laws, ordinances and regulations which define centrally the possibilities and conditions associated with employment and the wage system.

Management of the labor force is, in general, not satisfactory in our country. There are many reasons for it. The rigidity of the central regulation certainly needs to be relaxed giving greater chances to the managing units for sensible labor force management. Such steps have been taken during the past period in association with labor relations and employment. To this day, they offer possibilities greater than are taken practical advantage of. It is mostly because of environmental influences--philosophy, social aspects--that the employers are not taking sufficient advantage of these possibilities.

In the course of evaluating and criticizing the effectiveness of labor force management, we cannot restrict ourselves to labor relations alone although they are an important problem. Evaluation can be made only in the total context of the system of economic utilization of the resources, and of guidance and regulation. Moreover, it is also significantly influenced by the structural changes in production and in the activities.

One cannot speak of employment policy and labor force management without the wage system. The elements of the wage system can be divided into two large groups: to one group belong those by which we centrally determine or influence the actual practice of wage payments and certain of its conditions (income regulation, interest of the leadership, basic wage and tariff systems, preference system and the central wage policy regulations) and to the second group belong those elements by which management units mold the wage and income conditions of the employees or individual groups of employees (of these, the production requirement system must be mentioned in the first place; for instance, the setting of work norms, the concrete inclusion of the workers in the basic wage system, etc.).

Understandably, income regulation is the most frequent topic on the agenda because thereby we determine the conditions and define the requirements according to which the individual management systems are given the possibility of paying or raising wages. This provides to them the source of internal incentives. In tune with the development of the economic management system, income regulation is also being modified. In essence, tax free wage development will cease in the competitive sphere. Wages will be "entered" among the costs and their burdens will have to be carried by the enterprise. Organizations managed at profit are able to carry a greater burden of wages and thus to pay higher wages to their workers. This will differentiate

among the enterprises because the possibilities are different. On the other hand, it will induce them to produce the necessary coverage for the wages through as high profit as possible and to avoid the payment of unnecessary wages (maintaining the work force). In areas without the profit incentive, a centrally determined wage development will continue to be in effect.

Our goal is to strengthen the functioning of income regulation as an incentive and thereby to make available the possibility of a differentiated wage level according to the productivities and, consequently, to promote an effective mobility of the work force. We do not relinquish the regulation of the circulation of buying power, but it is necessary that a greater role than before be played by the other elements of regulation, primarily the price system and income regulation.

#### Technical Development

In section 4, Miklos Pulai, vice president of the OTH will discuss the changes taking place in the course of the further development of economic guidance which have an effect on the circumstances and conditions of enterprise technical development.

From this standpoint, he analyzes and evaluates mainly the changes planned in the economic regulatory system. In his lecture, he discusses the modernization of price regulation, enterprise-income regulation, income regulation and the circulation of social capital, and their correlations with the enterprise technical development activities.

He also mentions the problems of the state guidance of technical development emphasizing that the accomplishment of the technical development tasks is fundamentally an enterprise activity. One of the important aspects of the modernization of the economic guidance system, and especially of the economic regulatory system, is to promote an improvement in this activity.

Technical development is an important factor in improving the effectiveness of management which in turn is a definitive condition for accelerating economic growth. The preparatory data of the Seventh Five-Year Plan also indicate that, in the next few years, the increase in productivity, at the level of the national economy and of the enterprises, is an indispensable prerequisite for progress and it is closely related to the research, development and marketing activities, that is, to the technical development of the companies.

#### Meeting of Banking Section

Budapest MAGYAR HIRLAP in Hungarian 10 Jul 84 p 7

[Text] Pecs was the site of the 23rd Congress of Economists, Friday and Saturday. The first lectures at the opening general session--as we have reported in detail in our paper--were delivered by Lajos Faluvegi, deputy prime minister,

Jeno Vancsa, minister of agriculture and the food industry, and Laszlo Kapolyi, minister of industry. At the closing general session, Bela Csikos-Nagy, president of the Hungarian Society of Economics, was the speaker. In our article, we are reporting on the discussion heard at the section, presenting in particular detail the thoughts on the further development of the banking system and the viewpoints associated with technical development.

Many people were disappointed with this year's Congress of the Economists. Not because it was not sufficiently professional or there were not enough comments, because this is not at all the case. But one group, precisely the one which plays an important role in the reform, failed to speak up. Except in the section on technical development, the representatives of industrial enterprises failed to voice their opinions at every other session. Although everyone expected heated discussions this year, with representatives of the enterprises being the loudest advocates of their own viewpoints. The direction of the further development of the economy is known, but it would have been useful to hear suggestions as to its concrete solution. Passivity was the response instead. And this is more than thought provoking... it suggests disinterest. And yet the reform can be successful only with the active participation of the enterprises...

The meeting of financiers--this could be a brief characterization of section 2 of the 23rd Congress of the Economists in Pecs. The speaker was Matyas Timar, president of the Hungarian National Bank [MNB] and, with one exception, the invited commentators represented the other banks: Ivan Belyacz (Janus Pannonius University), Sandor Demcsak (Hungarian Foreign Trade Bank [MKB]), Laszlo Fekete (National Savings Bank [OTP]) and Peter Havas (State Development Bank [AFB]). The participants of the debate--again with one exception--were also from the financial circles.

This can also mean, of course, that the audience could hear from the best qualified experts about the situation concerning the further development of the banking system and how they evaluate the current level of credit allocation.

At the center of the debate about the further development of the banking system was the desirability of having a two-level system in Hungary or of letting it remain at the current single level with some modifications. Although the opinions expressed at the congress are not definitive it must, nevertheless, be mentioned that there was a 2:1 ratio of those favoring the two levels. The directors general of the AFB and of the MKB voted for the two levels while the president of the MNB was for the one-level system. It was stressed by Matyas Timar that they want to establish, within the MNB, two commercial sections and 2-3 sister banks with a certain semi-independence.



Thus, they are not advocating the maintenance of the current form unchanged. Separation of the central and commercial bank profiles would not solve the economic problems--as shown by the international example--moreover, during certain periods, it would even aggravate them. It appeared that the heads of the AFB and the MKB did not fully share this opinion since they urged the establishment of the two-level banking system. These standpoints are completely understandable because, by establishing the two levels, the MNB would lose some of its central position and could only retain it as a central bank. On the other hand, the other two finance institutions and all of the others would gain greater possibilities.

Should there be a free choice in banking, in Hungary?--was the question raised by several people, and there were differing standpoints here as well. No one fully rejected it but there were some who would only consider it correct with certain limitations. For instance, in such a way that the small and possibly the middle-sized enterprises could turn to the smaller banking institutes for credit while the large ones would only deal with the MNB. In this context, the director general of the MKB, Sandor Demcsak, remarked that the Generalimpex-effect has already appeared in the banking sphere as well. Namely, in the case of certain credits, the enterprises have a choice which reinforces their position and self-confidence, and it also generates a healthy competition among the banks. Peter Havas, head of the AFB, remarked that competition of equal rank can only develop if the active and passive banking operations are not separated from each other. If this happens, then the individual banks would become more like receiving counters or smaller pay-offices.

What is the circulation of capital like in the Hungarian economy? This was one question on which everyone agreed: It is weak. And the majority of the experts foresaw no significant change from one day to the next. A devilish cycle has developed. The banks have insufficient material sources for loans but these will not increase because the inclination of enterprises to save is slight. A radical step would be needed--said the director general of the AFB--to reduce the average loan period from the current 10 years to 5-6 years. Thereby the rate of money circulation would increase and a greater number of loans could be given. At the same time, it is also a fact that, at the present time, every bank does not even get its money back after the loan period. Enterprises operating at a loss or at a low efficiency are often forced to reschedule the repayments thereby further decreasing the credit reserves. These also make it evident, of course, that increasing the rate of capital circulation is not simply a task for banking.

But it is not for these reasons alone that the circulation of money can be slowed down. It takes only hours or days for the developed Western banks to carry out the operations which rev up the movement of money. At home, this takes weeks if everything goes well. Billions are "sitting" just because the domestic flow and handling of money is outdated. This also decreases the amount of credit and it has an inflationary effect at the same time. And yet nothing happens--stated the director general of the MKB. We are thrifty with everything except the money. Would it not be worthwhile to make investments here?!

Has the bond subscription been successful or not? Yes and no--was the reply of many people and they gave their reasons for and against it. The interest on the part of enterprises and cooperatives is less than expected, their sensitivity toward interests is minimal. For instance, the Comporgan System Factory had issued 100 million forints worth of bonds with high interest. It still could not sell them all. The same disinterest can be seen toward bond subscriptions as toward the circulation of capital among the enterprises. This would not redeem the world either because so far about 1.4 billion forints worth of bonds have been subscribed to--80 percent of it with the help of the AFB--that is, the sum in question is rather low.

Especially private individuals were active as buyers: one-third of the 1.4 billion was subscribed to by them. But it was precisely this area--the buying of bonds by the population--which produced the most debates and the greatest concern. Some fear that the savings tied down in the OTP will move and will appear on the market as a significant force for excess buying. This would have an inflationary effect. Another remarked that issuers of bonds are offering "dishonestly" high interest rates. There was also the opinion which would want to moderate the state guarantee associated with the bonds.

But the experiences prove--stressed an expert from the AFB--that buyers' interest can be maintained only with interests higher than those on the savings notes since the bonds carry a higher risk. (If the owner wants his money back before the term, can he sell the bonds, and if yes, at what price?) Paying interests annually is also necessary since two-thirds of the buyers are retired or are near retirement. They prefer the annual supplementation of income. Guarantee by the state can also not be dispensed with because the majority of the people do not know and cannot evaluate whether the promise by the bond-issuer is realistic or not. It is another question that this guarantee by the state could be shared, the role of the banks could also be increased in this respect.

A uniform financial system is needed--was the phrasing of many opinions--where profit would indeed be the result of good management and where the enterprises would indeed be independent, and the tax and credit would also have a more unequivocal role. In his closing words, Attila Madarasi, state secretary of finance, stressed that the primary goal of the further development of the banking system is to correctly define the direction of the change.

#### Thoughts on Technical Development

Budapest MAGYAR HIRLAP in Hungarian 10 Jul 84 p 7

[Text] It is not a new-fangled discovery that we are on the threshold of another scientific-technological revolution. Curiously, electronics and information systems are exhibiting an unexpected and surprising dynamics of development precisely in response to the economic recession. Therefore, it is not by chance that technological development with all of its social, economic and technical question marks has come into the center of world attention.



And it has become a particularly pressing problem in countries--like ours--struggling with a scarcity of resources where the rate of technical development has remained slower than desirable. And if the lines of force, today still in the stage of formation, will get solidified, those left behind will find it even more difficult to break through their own limitations than it is today. Thus technological development indeed raises the question of existence and non-existence.

The question: Does the expansion of the economic guidance system, in our country, provide the necessary conditions for technological development? Today's dynamics is providing tomorrow's balance--stressed Laszlo Kapolyi, minister of industry, at the opening general session. Miklos Pulai, vice president of the ATH, added: our efforts exerted toward maintaining liquidity simultaneously assured the dynamics of the future. We were not forced to reschedule our debts but the restrictions also caused some simultaneous disturbances in consumption. We survived the crisis at the cost of a mere 15 percent decrease in imports while other countries with debts landed in a grave situation with a 50-60 percent forced reduction in consumption. The emergency has passed, for the time being, and the further advanced economic guidance must create an environment conducive to technical development in the future.

The trouble is not too few investments--stressed Miklos Pulai--but the inappropriate allocation of the developmental resources and the structure of the development. The Seventh Five-Year-Plan takes into consideration that investments must be increased in the interest of acceleration and even of adaptation, but it cannot expand them rapidly. Actually, this could also be left up to the value judgment of the market because it will more reliably regulate the process of advancement and retrenchment than a bureaucratic administrative decision. A favorable economic environment could assert itself primarily through the regulation of enterprise incomes. Technical development must be decided at the enterprise level, the government would participate, at the most, within a narrow range, in infrastructural investments.

Jozsef Nyers, co-worker of the Central Bureau of Statistics, pointed out in his joint report that, using statistical methods, we are able today to measure the condition of the Technical Development Fund (MUFA) but not its usefulness. He quoted a study of KNEB [Central People's Control Committee] which examined already accomplished developments and found that 90 percent of them were initiated not within the enterprises but in research and development establishments and, if such work was successful, that is when industry "entered" the picture. Without risks! Today, technical development does not fulfill its role, economic conditions do not press the enterprises to do so.

Peter Bod, co-worker of the Mathematical Research Institute of MTA [Hungarian Academy of Sciences], explained that if we divide the Hungarian economy into 14 units, and we presume that we make three decisions--development, reduction and maintenance at the level,--the possible variations come to 4,300,000 in this case. That number of variants can only be analyzed by computerized

operational research. In the industrially developed countries, guidance today is already system-oriented, quantified and complex; in contrast to the traditional mode of decision making, also used in our country, which is making decisions affecting the system as a whole on the basis of predictions and information involving partial areas. The consequences make it justified today that we should more broadly utilize mathematical operation research. Recently, such a model was set up in cooperation with the Hungarian Aluminum Trust.

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LOW, HIGH PROFIT INDUSTRIAL ENTERPRISES ANALYZED

Budapest KOZGAZDASAGI SZEMLE in Hungarian No 6, Jun 84 pp 679-691

[Article by Dr Marton Petho, main department chief, Economic Research Institute: "Concerning Low and High Profit Industrial Enterprises"]

[Text] Problems connected with an evaluation of enterprise management, a method for rank ordering them according to efficiency and the indexes used have come increasingly into the foreground in recent years (2, 4, 5, 6, 7). In what follows, comparing the characteristics of low and high profit enterprises, I will try to outline the factors influencing profitability, seeking an answer to the question of what causes put the enterprises into the low profit (5 percent or less) or high profit (20 percent or more) groups. (By profitability I will mean the ratio of the results serving as a basis for accounting as compared to the combined total of net fixed assets and wage costs.)

Whether an enterprise is a low or high profit one is determined by the ratio of the use and yield of all resources, and this depends on the effectiveness of the market, development, production and, in the final analysis, the innovation process.

Of the various criteria characterizing an enterprise there are some closely related to profitability, while the effect of other criteria can hardly be demonstrated. A large number of the factors defining management are realized in a multiform mutual effect.

Investment and the Stock of Fixed Assets

The level, composition and effectiveness of investments have a considerable influence on the profitability of management. One of the fundamental differences between low and high profit enterprises appears precisely in the investments realized in the past 10-15 years and in the yield of these.

Between 1970 and 1980 the low profit enterprises studied invested a sum equal to 16-18 percent of their sales receipts while the high profit enterprises invested a sum equal to only 5-6 percent. This ratio was 11 and 4 percent in 1981-1982.

The technical composition of the investments differed also. The ratio of machines and equipment in the investments of low profit enterprises was about 50 percent; it was more than 70 percent for the high profit enterprises--as a result of intensive development. In the latter enterprises almost 50 percent of the machines and equipment came from non-ruble accounting import, while this ratio was 36 percent for the low profit enterprises. As a result of the cutback in non-ruble accounting import in 1981-1982 this ratio decreased considerably--especially for the high profit enterprises. (See Table 1)

Table 1. Ratio and Composition of Investments at the Low and High Profit Enterprises Studied (1970-1982)

1. sz. táblázat

A beruházások aránya és összetétele a megfigyelt alacsony és magas  
jövedelmezőségű vállalatoknál  
(1970-1982)

(1) Időszak	(2) Az összes beruházás a nettó árbevétel százalékában		(3) Az összes beruházásból			
			(4) a gépek, berendezések	(5) a gépekből a nem rubel elszámolású import		
				(6) aránya (százalék)		
	a	b	a	b	a	b
1971—1975	18,5	5,8	60,9	59,5	37,0	47,8
1976—1980	16,3	6,0	53,7	70,8	35,5	51,3
1981—1982	11,1	4,0	54,0	57,3	31,0	33,3

a: alacsony jövedelmezőségű vállalatok.  
b: magas jövedelmezőségű vállalatok.

(7)

Key:

1. Period
2. All investment as percentage of net sales receipts
3. Of all investment
4. Machines, Equipment
5. Of the machines, non-ruble accounting import
6. Ratio (percentage)
7. a: Low profit enterprises  
b: High profit enterprises

The (gross) stock of fixed assets of low profit enterprises of state industry increased at a rate two to three times faster than that of the high profit enterprises between 1975 and 1982. The majority of the enterprises in the former category participated in some sort of central development program or in the realization of export expanding investment or other investment serving central goals.

In these years the stock of fixed assets of low profit metallurgical enterprises increased by 55 percent and that of high profit ones by 17 percent; in the machine industry the increase was by 111 percent and 50 percent respectively. In the chemical industry the growth in the fixed assets of the low

profit enterprises exceeded that of enterprises in the other group by 20 percentage points, while in light industry it lagged slightly behind. (The growth was 77 and 82 percent respectively.) In the high profit group one finds presses, a few textile industry enterprises, several clothing factories, and a few shoe and furniture factories for which the fixed assets development accompanied a considerable growth in profits and profitability.

In both the low and high profit enterprise groups one can find enterprises with various net-gross value ratios. At the same time there is a certain--if not strong--connection between profitability and the ratio of fixed assets written off to zero. In the low profit enterprises, for example, the ratio of fixed assets written off to zero and the stock of fixed assets kept in operation is 3 percentage points greater in the machine industry and 8 percentage points greater in the construction materials industry than it is for high profit enterprises. In the low efficiency enterprises placing new fixed assets into operation is not always accompanied by scrapping of obsolete machines.

#### Utilization of Fixed Assets

As a whole the link between fixed assets and the development of production is characterized by the fact that the production per unit of fixed assets--even within one branch--is a good bit smaller in the low profit enterprise group, due to the greater assets need, differing product and technology structure and other factors. This index for the low profit enterprise group is 50-60 percent in metallurgy and light industry, 37 percent in the machine industry and 31 percent in the chemical industry, as compared to the high profit enterprises. (See Table 2)

Table 2. Production Value per 100 Forints Fixed Assets According to the Profitability Groups of the Enterprises (values in forints)

2. sz. táblázat

100 Ft állóeszközre jutó termelési érték a vállalatok  
jövedelmezőségi csoportjai szerint  
(forint)

(1) Ágazat	(2) 5% és alatta	6—10%	11—19%	(3) 20,1% és felette
Összesen (4)	76,3	201,5	184,5	251,9
Ebből:				
Kohászat (5)	123,3	155,3	233,2	218,3
Gépipar	109,4	170,7	182,7	296,3
Könnyűipar	111,3	131,5	159,5	236,3

Key:

1. Branch
2. 5 percent and below
3. 20.1 percent and above
4. Total

5. Of this:

Metallurgy  
Machine industry  
Light industry

Capital intensive developments, the unsuitable level of production and, above all, the unsuitable level of organization have a significant role in the unfavorable ratio of fixed assets and production at the low profit enterprises as well.

--In the low profit enterprises the expansion of production--as a result of technological peculiarities also--is generally more demanding of assets (metallurgical, chemical industry developments) than in the high profit enterprises. In the low profit enterprises studied there is only half as much production value per 100 forints invested--even calculated on the basis of investment plans--than in the high profit enterprises.

--For the enterprises belonging in the former group the ratio of investments of an environmental protection, work protection, infrastructural and social character, not directly productive, is also higher. (More than one enterprise studied, for example, spent several hundred million forints on gas supply, computer technology investment and environmental and work protection development.)

--Technical disproportions could be found in the investments more than once (largely due to the lack of the tools necessary for the development). For example, the modernization of certain technologies or supplementary, auxiliary, etc. activities did not take place, which held back the prescribed growth in production.

--In a number of cases--primarily in the low profit enterprises--the investments did not achieve the planned results because of changes in market demand, in which of course unsatisfactory market forecasts played a role too.

Utilization of production capacity is not satisfactory in the low profit enterprises; indeed, in a number of cases it is decreasing, significantly damaging the efficiency of management. Utilization of capacity is greater in the high profit enterprises also.

In themselves the degree of capacity utilization and the average number of shifts do not express fixed assets efficiency, for they do not reflect the ratio of costs and production (as profit) connected with the fixed assets. For example, an average of 1.2 shifts means something entirely different for an enterprise where the value of fixed assets is 1 million forints per capita than it means where this value is 100,000 forints. That is, the greater the stock of fixed assets per employee the more an increased utilization of fixed assets is a requirement.

So the exploitation of production capacity should be evaluated not by the average number of shifts but rather taking into consideration the size of the fixed assets of the given enterprise; for even in the case of a number of shifts above the average the production could be at a loss--due to the high assets burdens.

## Costs Connected With Assets

A large number of the costs connected with fixed assets are of a permanent character. Thus the larger and more modern the stock of fixed assets of an enterprise the more assets costs of a permanent character it must reckon with, and by utilization of capacity it must achieve a profit in proportion with the costs.

There is a significant difference between the two enterprise groups in the specific costs connected with assets. In the low profit enterprises the ratio of depreciation compared to production value is almost 5 percentage points greater (3 in the machine industry and 10 in the chemical industry) than in the high profit enterprises. (Depreciation is 13 percent of the production value of low profit chemical industry enterprises, 5 percent for the machine industry enterprises.)

At the same time, in the low profit enterprises the assets maintenance costs (maintenance, repairs, renovation) per unit production are 2-4 percentage points higher than in the high profit ones, because of the larger stock of assets, but not least of all because of the higher ratio of fixed asset written off to zero and yet kept in operation.

Bank costs have increased significantly in recent years--because of the ever rising rates of interest among other things--and their ratio as compared to production are greater by 2-4 percentage points for the low profit enterprises than it is for the high profit ones. For the low profit machine industry enterprises this ratio averages more than 8 percent (10-15 percent for more than one enterprise), and 6 percent for the chemical industry enterprises, while for the high profit enterprises it is only 0.5-1 percent. Interest on working assets credits also increased bank costs--primarily for the low profit enterprises. The turnover speed of stockpiles for the low profit enterprises is about two-thirds that of the high profit enterprises in light industry and 70 percent in metallurgy and the machine industry.

The combined ratio of depreciation, fixed assets maintenance costs and bank costs, as compared to production value, is 26 percent for the low profit chemical industry enterprises, 19 percentage points more than for the high profit enterprises of the branch. These costs make up about one-fifth of the production value for machine industry enterprises in the same category. (See Figure 1) The differing ratio of assets burdens determines in a fundamental way the level of enterprise profitability.

For enterprises with a high assets needs the costs of embodied work (for example, depreciation, interest, fixed assets maintenance) have a considerable influence on the profitability index. In the low profit enterprises the ratio of depreciation writeoffs and bank costs, as compared to net assets value and wage costs, is higher than in the high profit enterprises by 8-10 percentage points. (For example, this ratio is 12 percent for the low profit enterprises and 4 percent for the high profit enterprises in the machine industry, and 16 and 6 percent respectively in the chemical industry.)

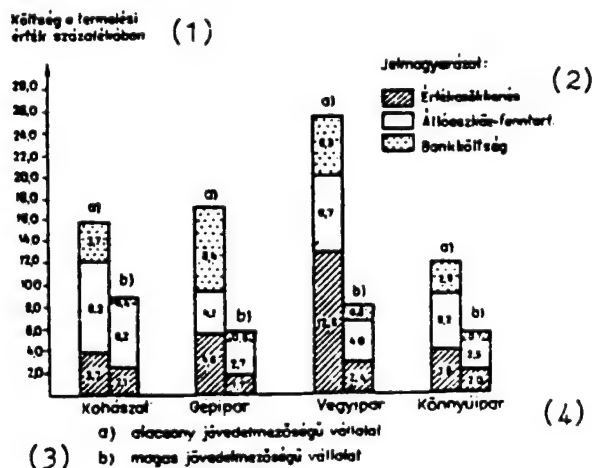
Thus, because of the high ratio of assets burdens these enterprises frequently start with a disadvantage of 8-10 percentage points in regard to profitability as compared to the other enterprises--even in the case of similar management conditions (market situation, capacity utilization, profit content of prices etc.). (1)

The world market slump (falling prices, decreased demand) has had a good bit greater effect on the enterprises with a high specific fixed assets demand than on the enterprises more demanding of live work--this is also a result of a larger ratio of non-ruble accounting export and the rigid character of capacity. As a result of the system of earnings regulations the enterprises with low profitability and a large stock of fixed assets are also in a less favorable situation from the viewpoint of increasing wages and earnings.

Figure 1. Costs Connected with Assets in Percent of Production Value  
(For Low and High Profit Enterprises)

Az eszközökkel kapcsolatos költségek a termelési érték százalékában  
(Az alacsony és a magas jövedelmezőségű vállalatoknál)

1. sz. ábra



Key:

1. Costs in percent of production value
2. Symbols:  
Depreciation  
Fixed assets maintenance  
Bank costs
3. a: Low profit enterprise  
b: High profit enterprise
4. (left to right) Metallurgy, Machine industry, Chemical industry, Light industry



The link between assets needs and profitability is also shown by the fact that at the low profit enterprises the fixed assets value per employee is 3.5 times greater than at the high profit ones. One can conclude from this that the concept of bad efficiency attaches to the large enterprises because, among other things, there are more large enterprises realizing significant investment among the enterprises with a high assets need.

### Enterprise Size

In 1982, 14 percent of the more than 1,100 enterprises of socialist industry studied were low profit ones (here and in the following this does not include the foodstuffs industry). These had 50 percent of the stock of fixed assets and they employed 27 percent of the personnel. The ratio of high profit enterprises was 43 percent, and they had only 9 percent of the total stock of fixed assets and 21 percent of the personnel. (See Table 3)

Table 3. Distribution of Number of Enterprises, Their Stock of Fixed Assets and Personnel According to Their Profitability Group in Socialist Industry (1982) (percentage)

3. sz. táblázat

A vállalatok számának, állóeszköz-állományának és létszámának megoszlása a jövedelmezőség nagyságcsoportja szerint a szocialista iparban (1982) (százalék)

(1) Jövedelmezőség (százalék)	(2) A vállalatok számának	(3) Az állóeszközök bruttó értékének	(4) A foglalkoztatottak számának
	megoszlása (5)		
— 5	13,8	49,7	27,2
6—10	14,0	16,5	18,5
11—19	29,5	25,2	33,1
20—	42,7	8,6	21,2
Összesen (6)	100,0	100,0	100,0

Key:

1. Profitability (percentage)
2. Number of enterprises
3. Gross value of fixed assets
4. Number of employees
5. Distribution
6. Total

On the basis of the above it appears that the largest enterprises are less economical than the small and medium size enterprises. (7) But we should look in a little more detail at the link between enterprise size and profitability.

Because of their peculiarities it is appropriate to analyze separately state and cooperative industries because the roughly 500 enterprises (not counting trust centers, associations and research institutes) in state industry make up only 45 percent of the managing organizations of socialist industry, but they have 96-97 percent of the personnel and stock of fixed assets and take

in 94 percent of the net sales receipts. The more than 600 industrial cooperatives make up 4-5 percent of socialist industry and their size is smaller than that of the enterprises of state industry by one order of magnitude. (The value of fixed assets per employee in state industry is almost six times that of cooperative industry.)

The branch structure of state and cooperative industries differ also. The combined ratio of the machine industry and light industry is 75 percent in cooperative industry, while it is only 38 percent in state industry. There is also a considerable difference in the distribution of the enterprises according to profitability. For example, the low profit enterprises in state industry have 51 percent of the stock of fixed assets, in cooperative industry they have 7 percent. They employ 31 and 5 percent of the personnel respectively.

In what follows we will examine state industry, where the profitability of the large enterprises is lower than that of the small enterprises. The low profit enterprises (one quarter of the enterprises) have half of the fixed assets and almost one-third of the personnel, while the high profit ones (also roughly one-quarter of the enterprises) have only 7 percent of the stock of fixed assets and 16 percent of the personnel. At the low profit enterprises the fixed assets per enterprise is 7 times greater and the personnel two times greater than at the high profit enterprises.

Every enterprise of the electric power industry, 92 percent of the metallurgical enterprises, 67 percent of the mining enterprises and 60 percent of the construction materials industry enterprises (calculated on the basis of value of fixed assets) belong in the low profit group. In the high profit group--for well known reasons (price form, profit content of price, assets needs, etc.)--there are no mining or electric power industry enterprises; 2 percent of the construction materials industry enterprises, 5 percent of the metallurgical enterprises, 13-14 percent of the machine industry and light industry enterprises and 11 percent of the chemical industry enterprises belong in this category.

In state industry it is largely mining, the electric power industry and the enterprises of the branches manufacturing primary materials which "cause" the larger specific fixed assets value of the low profit enterprises and the "large enterprise" character of this category. In the processing industry the difference between the sizes of the low and high profit enterprises is not so great. For example, the fixed assets value per enterprise for low profit machine enterprises averages twice as large as for the high profit enterprises of the branch. Twenty-nine percent of the low profit machine industry enterprises--where the fixed assets value per enterprise does not reach 100 million forints--have only 1.5 percent of the fixed assets of this category. (The stock of fixed assets for 46 percent of the enterprises is less than 250 million forints.) The fixed assets value of 17 percent of the low profit enterprises exceed 1 billion forints, but these have 76 percent of the stock of fixed assets for the group. That is, it is largely these enterprises (four enterprises) which determine the large enterprise character of the low profit machine industry enterprise group. For 29 percent of the high profit machine industry enterprises the fixed assets come to less than 100 million forints per enterprise and for 9 percent they come to more than 1 billion forints. (See Table 4)

Table 4. Distribution of Number of Low and High Profit Machine Industry Enterprises and Their Stock of Fixed Assets According to the Size of Fixed Assets Per Enterprise (Percentage)

4. sz. táblázat

Az alacsony és a magas jövedelmezőségű gépipari vállalatok számának és állóeszköz-állományának megoszlása az egy vállalatra jutó állóeszköz nagysága szerint (százalék)

(1) Az egy vállalatra jutó állóeszköz bruttó értéke (M Ft)	(2) Az 5% és kisebb jövedelmezőségű vállalatok		(3) A 20% és magasabb jövedelme- zőségű vállalatok	
	(4) számának	(5) állóeszköz- állományának	(6) számának	(7) állóeszköz- állományának
	(8) megoszlása			
— 100	29,2	1,5	29,4	2,7
101— 250	16,7	2,9	11,8	4,6
251— 500	20,7	7,0	17,6	12,3
501—1000	16,7	12,8	32,4	43,6
1000—	16,7	75,8	8,8	36,8
Összesen (9)	100,0	100,0	100,0	100,0

Key:

1. Gross value of fixed assets per enterprise (millions of forints)
2. Enterprises with profitability 5 percent and less
3. Enterprises with profitability 20 percent and higher
4. Number
5. Stock of fixed assets
6. Number
7. Stock of fixed assets
8. Distribution
9. Total

The average size of the machine industry enterprises with less than 1 billion forints in fixed assets in the low profitability group is 12 percent less than in the high profitability category. Of the seven light industry enterprises with more than 1 billion forints in fixed assets five are in the low profit group and two are in the high profit group.

So enterprise size in itself does not have a determining effect on the profitability of the enterprises. There are low and high profit enterprises among both large and small enterprises. A link between enterprise size and profitability or the results serving as a basis for accounting cannot be demonstrated in state industry according to the correlation coefficients (−0.25 and 0.42 respectively).

Technical Development, Manpower Situation, Leadership

The harmony of market, development, production and sales can come into being only as a trend and with a constant effort to put an end to the disproportions which continually arise. It follows from this that a mutual effect is

characteristic of a large part of the factors determining profitability. For example, the market demand necessary for utilization of capacity demands suitable technical development and a product structure and technology meeting the needs.

In technical development also there is a significant difference between the low and high profit enterprises. In the low profit enterprises only a very tiny fraction of the 1983 sales receipts was turned to technical development (0.3 percent in metallurgy and light industry and 1.6 percent in the chemical industry, for example). In the highly efficient enterprises they used 2-3 percent (2 percent in the machine industry and 2.3 percent in the chemical industry, for example). (It is another question whether the 2-3 percent proportion is not also low in an international comparison).

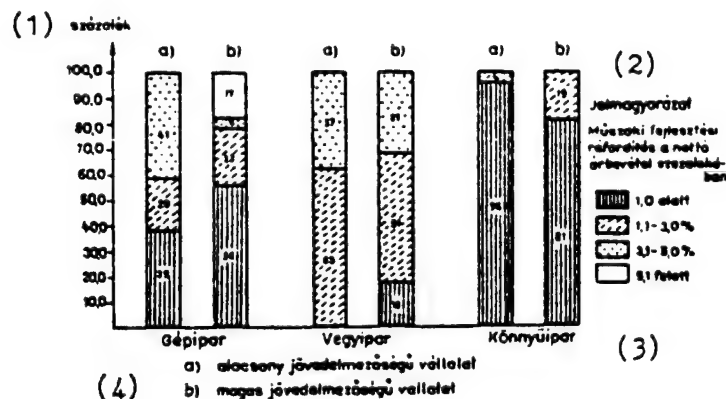
The ratio of technical development expenditures is around 2 percent in both enterprise groups of the machine industry. In 40 percent of the low profit machine industry enterprises and in 56 percent of the high profit enterprises the ratio of technical development expenditures did not reach 1 percent. In only about one-fifth of the high profit machine enterprises did this ratio exceed 5 percent. At a number of high profit chemical industry enterprises also the ratio of expenditures for technical development was around only 1 percent.

In light industry 96 percent of the low profit enterprises and 81 percent of the high profit enterprises spent less than 1 percent of the sales receipts on technical development. (See Figure 2)

Figure 2. Distribution of Net Sales Receipts According to Ratio of Technical Development Expenditure For Low and High Profit Enterprises.

2. sz. ábra

A nettó árbevétel megoszlása a műszaki fejlesztési ráfordítás aránya szerint az alacsony és a magas jövedelmezőségű vállalatoknál



Key:

- |                                |                                      |
|--------------------------------|--------------------------------------|
| 1. Percent                     | 3. (left to right) Machine industry, |
| 2. Symbols: Technical develop- | chemical industry, light industry    |
| ment expenditure in percent of |                                      |
| net sales receipts             | 4. a: Low profit enterprises         |
| Below:                         | b: High profit enterprises           |
| 1.0                            |                                      |
| 1.1-3.0                        |                                      |
| 3.1-5.0                        |                                      |
| above 5.1                      |                                      |

The more intensive research activity of the high profit enterprises is characterized not only by an expansion of their own research base and a considerable increase in research personnel but also by many-sided cooperation with various institutions and university faculties. Almost every high profit enterprise studied bought some kind of license and know-how and applied them or developed them further successfully. The production cooperation which developed with capitalist enterprises at the enterprises studied not only increased the non-ruble accounting export but also increased the technical level and improved the organization of production. The ratio of new products is greater at the high profit enterprises also.

In many cases the high technical level was also accompanied by greater capitalist import. For example, at the low profit enterprises capitalist import was 13 percent of the material, energy and parts use; at the high profit enterprises it was 28 percent.

The personnel situation and the structure of it significantly influence utilization of production capacity (and technical development as well). The unfavorable effect of the reduction in personnel which took place in industry in recent years was stronger at the low profit enterprises than at the high profit enterprises (more than once it caused production, capacity utilization and profitability problems.) The latter tried to counterbalance this effect with various measures. For example, through investment they reduced considerably the specific live work need of production, they established provincial industrial sites in good time, they raised the level of work and operations organization--even bringing in foreign organizers--etc.

Between 1979 and 1982--corresponding to the industry average--the non-physical personnel were reduced by about 5 percent at the low profit enterprises; but this figure stagnated at the high profit enterprises. At the low profit enterprises the technical personnel were reduced by 5 percent (by 15-20 percent at more than one enterprise) while at the high profit enterprises they increased by 1 percent (by 8-10 percent at a number of enterprises).

At the high profit enterprises the intellectual forces show an increased concentration; in this same period the number of university and college graduates increased by 26 percent, while they increased by 9 percent at the low profit enterprises. (In a number of low profit enterprises the number of those with higher degrees decreased in 1979-1982.)

The number of engineers increased at a greater rate (by 13 percent) in the high enterprises than in the low profit ones (3 percent). In more than one low profit enterprise there were fewer engineers working in 1982 than in 1979. In the past 4 years the number of economists at the low and high profit enterprises alike increased by about 30 percent. (At the low profit enterprises economists make up 2 percent of the non-physical personnel, 3 percent in the other group.)

Naturally the level of enterprise leadership has an effect on the profitability of management also. Naturally it is possible to pass judgment on the leadership only at a concrete enterprise--on the basis of a basic analysis of

circumstances and conditions--and in the case of the persons involved. A link cannot be demonstrated between the age and schooling of the leaders and the profitability. According to data as of 31 December 1981 for 324 workers in higher leadership positions in the 43 low profit enterprises and 52 high profit enterprises under supervision of the Ministry of Industry, the average age of the leaders at low profit enterprises was 48 years and at the high profit enterprises it was 49.2 years. The ratio of leaders under 40 years of age was higher in enterprises belonging to the former group (20 and 16 percent respectively). (Sixteen percent of the directors general and 24 percent of the technical directors of the low profit enterprises were younger than 40 years of age; this ratio was 6 and 13 percent respectively for those in the other group.)

The ratio of those who have been in office 1-5 years is greater for the low profit enterprises; for those who have been in a leadership position more than 10 years the ratio is less than in the high profit enterprises. The ratio of university graduates is approximately the same (about 75 percent).

#### Direction of Sales, the Market Situation

Marketing possibilities or the market situation have a crucial influence on enterprise management and the effectiveness thereof. Demand has an effect on utilization of capacity and thus on specific costs and a change in sales prices directly affects enterprise achievement. (Naturally, here also, there is a mutual effect.)

About 80 percent of the sales receipts of low profit enterprises (excluding mining and the electric power industry) derive from domestic sales; this figure is 66 percent for the high profit enterprises. (But in the case of domestic sales one must remember that the situation is entirely different for industrial enterprises manufacturing consumer articles, semi-finished products with a monopoly character, parts, subassemblies or investment goods.)

There is a significant difference between the two enterprise groups in regard to export. In the low profit enterprises the ratio of non-ruble accounting export is 15-16 percent, that of ruble accounting export is about 4 percent. In the high profit enterprises 24 percent of the sales receipts come from ruble accounting export and about 10 percent comes from non-ruble accounting export. (See Table 5)

The enterprises conducting large non-ruble accounting export belong in the low profit enterprise group. For example, the non-ruble accounting export per enterprise for the low profit metallurgical and chemical industry enterprises is more than 1 billion forints, which is 4-5 times the average export of high profit enterprises belonging in these same branches. The enterprises belonging in the former group fulfilled about two-thirds of the export of these two branches. As an average almost twice as much export falls to a low profit machine industry enterprise as to a high profit machine industry enterprise. (In 1982 the non-ruble accounting export of the two metallurgical, five machine industry, two chemical industry and three light industry enterprises in an especially unfavorable situation and with low profitability was more than 400 million dollars.)

Table 5. Ratio of Export in Sales Receipts for Low and High Profit Enterprises in 1982

5. sz. táblázat

Az export aránya az árbevételből az alacsony és a magas  
jövedelmezőségű vállalatoknál, 1982-ben

(1)  Megnevezés	(2) A rubleexport aránya		(3)  Különb- ség	(4) A nem rubel- export aránya		(5)  Különb- ség
	az 5% és kisebb	a 20% és maga- sabb		az 5% és kisebb	a 20% és maga- sabb	
	(6) jövedelmezőségű vállalatoknál			jövedelmezőségű vállalatoknál		
1.	2.	3.	4.(2.—3.)	5.	6.	7.(5.—6.)
Kohászat (7)	4,0	4,3	—0,3	12,7	9,4	+3,3
Gépipar	18,4	42,3	—24,3	23,9	11,3	+12,6
Vegyipar	2,4	6,2	—3,8	18,0	6,6	+21,4
Könnyűipar	6,5	12,9	—6,4	12,6	8,3	+4,3

Key:

1. Designation
2. Ratio of ruble export
3. Difference
4. Ratio of non-ruble export
5. Difference
6. Enterprises with profitability of 5 percent and less,  
20 percent and more
7. (top to bottom) Metallurgy, Machine industry, Chemical industry,  
Light industry

The mutual effect of the factors affecting profitability (for example, the market situation, capacity utilization) is shown by the fact, among other things, that the decrease in world market prices, the increasing duties, discrimination and the increase in transportation costs have affected the low profit enterprises to a greater degree than the high profit enterprises. (A number of enterprises--primarily metallurgical and chemical industry--have sold on more distant markets also with the goal of maintaining or even increasing the level of export.) The low profit enterprises have an absolute need for export in order to utilize capacity and maintain continual operations (because of the greater ratio of non-ruble accounting export among other things). At the same time, at these enterprises, the capacity is frequently suitable for manufacture of only a few products and if there is no capitalist demand they cannot switch to production for domestic purposes or economical ruble accounting export. In many cases their market position does not permit them to abandon uneconomical export, and the unfavorable effect of this frequently appears in their domestic sales also (price following).



The marketing possibilities of the high profit enterprises, on the other hand, are a good bit more favorable--as a result of the already mentioned innovation activity among other things. The world market slump influences the utilization of capacity less, and it is possible for them to abandon non-profitable export. The domestic and ruble accounting market demand is significant. Many of them have a broad products scale, their production capacity is flexible and suitable for manufacture of many sorts of products.

To a certain extent the non-ruble accounting marketing possibilities, the increasing competition, the price decreases, etc., are indicated by the cost level for producing foreign exchange. This is 10-20 percent greater in the low profit enterprises than in the high profit enterprises. The specific cost of producing foreign exchange was above the average in 1982 especially in metallurgy and the chemical industry, struggling with marketing problems.

The market situation has a crucial effect on the profitability of enterprise management only in the case where the enterprises determine independently the direction of marketing, their market work, tactics, etc.--according to their short and long range interests. But their decisions are also influenced by other factors outside market effects and the indirect guidance system--and going beyond the production peculiarities--such factors as central intervention and incentive. Thus in many cases the distribution of sales receipts and profit according to marketing directions indicate not the actual market relationships but rather the market relationships "tangled" by various effects.

#### Cost Level, Cost Structure

Taken together the cost level of production and the ratio of the various costs indicate the crucial factors in the difference between the management of the low and high profit enterprises. At the low profit enterprises the cost level of production is higher than at the high profit ones by 15-20 percentage points. The crucial cause of this is the higher specific material and energy costs, and especially the already mentioned good bit larger assets burdens.

The low profit enterprises use 12 forints more material for 100 forints of production value in metallurgy, and 2-3 forints more material in the chemical industry and light industry than do the high profit enterprises. At the low profit machine industry enterprises, on the other hand, the specific material use for production is 6 forints less than at the high profit enterprises (partly because of the higher ratio of services).

The specific energy need for production (on the basis of energy costs) is greater for the low profit enterprises in every branch than it is for the high profit ones--largely for technological reasons. For example, the energy cost is 7 percent of the production value of the low profit machine industry enterprises but only 2 percent for the high profit ones. More enterprises in the former group also conduct metallurgical activities (foundaries, forging works). Among the low profit chemical industry



enterprises it is primarily the production of the artificial fertilizer manufacturing and synthetics primary materials manufacturing enterprises which is energy demanding; in light industry it is the production of the textile and leather industry enterprises which is. (See Table 6)

Table 6. Ratio of Material and Energy Costs in Low and High Profit Enterprises (Percentage of Production Value)

6. sz. táblázat

Az anyag- és energiaköltség aránya az alacsony és a magas  
jövedelmezőségű vállalatoknál  
(A termelési érték százalékában)

(1) Ágazat	A nettó anyagköltség		(3) Különb- ség	Ebből: az energiaköltség		(5) Különb- ség
	(2)			(4)		
	az 5% és kisebb	a 20% és maga- sabb		az 5% és kisebb	a 20% és maga- sabb	
(6)	jövedelmezőségű vállalatoknál			jövedelmezőségű vállalatoknál		
Állami ipar összesen (7)	64,9	63,2	+ 1,7	26,5	4,0	+ 22,5
Ebből: (8)						
Kohászat	79,4	67,3	+ 12,1	25,7	14,6	+ 11,1
Gépipar	53,3	59,0	— 5,7	6,7	2,2	+ 4,5
Vegyipar	70,9	68,2	+ 2,7	33,2	5,6	+ 27,6
Könnyűipar	66,7	64,4	+ 2,3	8,3	2,9	+ 5,4

Key:

1. Branch
2. Net material cost
3. Difference
4. Of this: Energy cost
5. Difference
6. Enterprises with profitability of 5 percent and less,  
20 percent and more
7. State industry total
8. Of this: (top to bottom) Metallurgy, Machine industry,  
Chemical industry, Light industry

Interdependent with the fixed assets, materials and energy costs the ratio of general operating costs in the sales receipts of the low profit enterprises is 2.5 times greater than for the high profit enterprises in metallurgy, the machine industry and light industry.

The ratio of costs of enterprise central guidance, as compared to sales receipts, is 21 percent for the low profit machine industry enterprises and 13-14 percent for the chemical industry and metallurgical enterprises, a good bit more than at the high profit enterprises. The costs of central guidance include, among other things, the bank costs, which especially increase the costs of the low profit enterprises. The cost ratio of central guidance calculated without bank costs is less in the low profit metallurgical and

chemical industry enterprises than in enterprises belonging to the other group! But in the low profit machine industry enterprises the cost of central guidance (again without bank costs) is 14 percent of the sales receipts while it is 9 percent in the high profit ones. In light industry the ratios are 11 and 8 percent respectively. In a number of cases all this indicates the backwardness of the guidance system within the enterprise, the lack of independence of the producing units and inflated administrative and authoritative activity by the enterprise center.

#### Results, Determination of the Developmental Fund

A significant difference between the two enterprise groups appears in the development of results according to marketing directions and of receipts proportional results--primarily because of the differing market positions and costs structure. The non-ruble accounting export of the low profit enterprises--with the exception of light industry--is at a loss and the specific results of ruble accounting export and domestic sales are unfavorable also. But the high profit enterprises achieved receipts proportional results between 10 and 20 percent in all three marketing directions.

The distribution of the results of the enterprises corresponds to the trends described also. At the low profit metallurgical enterprises domestic sales and the non-ruble accounting export are at a loss; ruble accounting export was profitable. At the low profit machine industry enterprises the loss on non-ruble accounting export was nearly two times the profit on domestic sales and ruble accounting export. At the chemical industry enterprises belonging in this same group the result from domestic sales counterbalanced the loss on export (primarily capitalist export). In light industry about three quarters of the profit of enterprises in both groups was generated in domestic sales. The high profit enterprises achieved a profit in all three marketing relationships. One-sixth of the profit of the machine industry enterprises and one-tenth of the profit of light industry enterprises derived from non-ruble accounting export--39 and 14 percent respectively from export conducted in rubles.

The situation of the low profit enterprises is less favorable than that of the high profit enterprises in regard to developmental fund generation and use also. At the low profit enterprises studied there was a 30 forint developmental fund from profit for every 100 forints of developmental funds generated from amortization; at the high profit enterprises this was about 300 forints. The ratio of the developmental fund generated from their own resources, as compared to fixed assets, was about 5 percent at the low profit enterprises; it was 10-12 percent at the high profit enterprises.

The situation of the low and high profit enterprises differs from the viewpoint of developmental possibilities also. As a result of the investments carried out in the past decade a significant repayment obligation burdens the low profit enterprises which will tie up their developmental funds being generated for several years. Not infrequently they struggle with a developmental fund shortage. In 1984-1985, at the low profit enterprises studied, an average 95-98 percent repayment obligation--at a number of enterprises a

150 percent repayment obligation--burdens the developmental fund being generated from their own resources. A considerable repayment obligation will come due for these enterprises between 1986 and 1990 also. Enterprises belonging in this group frequently struggle with a developmental fund shortage and can hardly carry out even maintenance of level investment or machine replacement.

The situation of the high profit enterprises studied is more favorable in this respect also; in 1984-1985 repayment obligations will tie down only a smaller part of their own resources (about 20 percent) so--as in earlier years--they have relatively greater possibilities for development, for modernizing the production structure.

In the sharpening world market competition even the temporary advantages following from technical development are decreasing more and more. The low profit enterprises can improve their situation and the high profit ones can maintain the level achieved only with great effort.

A fundamental change in the situation of the low efficiency enterprises, a well based increase in their profitability, is possible only in a complex way and only over the medium or long range. All this, it can hardly be disputed, is an enterprise task. The way to increase efficiency, hardly used thus far, is to reduce expenditures, practice strict cost management, regroup manpower and assets among enterprises and strive deliberately for optimal harmony between costs and profits. But to reduce the number and ratio of low profit enterprises (over the medium and long run) it will be necessary, in addition to creating constraining circumstances, to vigorously increase the economic independence of the enterprises and considerably expand their freedom of movement.

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8984

CSO: 2500/474

LAW ON IMPLEMENTATION OF 1983 BUDGET PUBLISHED

Budapest MAGYAR KOZLONY in Hungarian No 28, 8 Jul 84 pp 506-507

[Article by Pal Losonczi, president of the Presidential Council of the Hungarian People's Republic and Imre Katona, secretary of the Presidential Council of the Hungarian People's Republic: "Law III of 1984 on the Implementation of 1983 Budget"]

[Text] Taking into consideration the measures of law II of 1979, on state finances, the National Assembly is making the following law:

Principal Amounts

1. § The Assembly approves the report on the implementation of law II of 1982, on the 1983 budget with

543 735 000 000 (five hundred forty-three billion and seven hundred and thirty-five million) forints income.

549 822 000 000 (five hundred and forty-nine billion and eight hundred and twenty-two million) forints expenditure and

6 087 000 000 (six billion and eighty-seven million) forints deficit.

Detailed Income

2. § Tax payments and other contributions made by enterprises--without the payments referenced in 3.0 -- are 388 830 million forints, 71.5 percent of the total income.

3. § Contributions made by enterprises, budget organizations and the population to social security and pension allowances are 86 651 million forints, 16 percent of the total income.

4. § Taxes and dues paid by the population are 14 231 forints, 2.6 percent of the total income.

5. § The sum of the income of budget organizations is 40 954 forints, 7.5 percent of the total income.

6. \$ Income from international financial connections and other sources is 13 069 forints, 2.4 percent of the total.

#### Detailed Expenditures

7. \$ Assistance provided for investments by state enterprises, collective farms and budget offices, the development funds of councils, the support of private home building, the provisions of revolving funds for state outlays and the extension of development funds of enterprises agricultural plants, furthermore, sums for the replenishment of credit funds are 66 961 million forints, 12.2 percent of total expenditures.

8. \$ Tax refunds to promote the production and trade of enterprises are 162 468 million forints, 29.6 percent of the total expenditures.

9. \$ Funds used for social security tasks, among these family allowance, sick leave, children care and other cash assistance, medical care, pension and other sums are 107 213 million forints, 19.5 percent of the total expenditures.

10. \$(1) Funds to cover the activities of budget organizations are 172 358 million forints, 31.3 percent of the total expenditures.

(2) Funds in paragraph (1) are distributed among the following tasks:

--funds to cover the tasks of medical and social organizations, among these general and special hospitals, clinics and other inpatient and outpatient institutions, district day care centers, public health and epidemic services, contributions to organized vacation, cash assistance and health care and social services are 26 914 forints, 4.9 percent of the total expenditures;

--funds for education and scientific research, the activity of athletic organizations, among these local and work place day care centers, lower, intermediate and upper education student welfare institutions and the fulfillment of sports goals are 50 010 forints, 9.1 percent of the total expenditures;

--funds for defense, 21 857 million forints, internal security, 11 565 million forints; armed forces, 33 422 million forints, 6.1 percent of the total expenditure;

--funds for the tasks of management, justice and police authorities, among them the maintenance of roads and bridges, city and community management, agriculture, water management, environmental protection and other economic tasks, the replenishment of the fixed capitals of budget organizations are 62 012 million forints, 11.2 percent of the total expenditures.

11. \$ Funds to cover payment of international obligations, internal credit payments, payment of interests and other budgetary tasks are 40 822 million forints, 7.4 percent of the total expenditures.

#### Allowances for Central Budget Organizations

12. § The National Assembly takes into consideration that within the framework of the sums indicated in paragraph 1, the relationship of central budget organizations constituting independent budget chapters to the state budget exceeded, in the area of budget payments, the allowance by 494 million forints and, in the area of budget support, fell short of it by 3120 million forints; the budget was implemented as indicated--broken down by chapters--in attachment 1.

#### Support of Operating Expenses and Development Funds of Councils

13. § The National Assembly takes into consideration that state contributions to operating budgets of councils exceeded by 1367 million forints and to the development funds of councils by 412 million forints the sum determined in paragraph 13 of law II of 1982, and the budget was implemented as indicated--broken down by capital city, county and county capital councils--according to attachment 2.

14. § The National Assembly authorized the Ministry Council to modify to the level required in 1983 the resident taxes and dues, which constitute the income of county councils and which are growing at a much faster pace than expected (as reflected by the data of 1983 final accounts) as a result of small plant production development and the introduction of contractual work and other central directives. The amount collected can be used to cover interim expenses requiring state assistance.

#### Miscellaneous expenses

The National Assembly approves the activity of the Minister Council and the Minister of Finance in connection with the implementation of the 1983 budget--performed according to the authorization in paragraph 18 and 19 of law II of 1982--and that, as a result of modifications in payment obligations and assistance during the year, income exceeded the stated amount by 20,235 million forints and expenses by 16,122 forints.

16. § This law becomes effective on the day of its publication.

9901

CSO: 2500/503

UTILIZATION OF WORLD BANK LOANS DESCRIBED

Budapest MAGYAR HIRLAP in Hungarian 20 Jul 84 p 7

[Article by Maria Lakatos: "Loan--For Development"]

[Text] Thursday, the Hungarian National Bank signed an agreement in Budapest with a financial group led by the Arab Banking Corporation (Bahrein), the Industrial Bank of Japan (Tokyo), the Manufacturers Hanover Bank (New York) and the Standard Chartered Bank (London) concerning the granting of a \$385 million loan co-financed by the International Bank for Reconstruction and Development (World Bank). The loan is designed to aid in developing Hungary's export capacities and realizing the country's hydrocarbon-producing program.

The same objective will be served by another loan, in the amount of 23 billion yen (approximately \$100 million), also organized with the assistance of the World Bank, the agreement for which was signed in Tokyo on July 25. This loan was arranged by the Industrial Bank of Japan (Tokyo) and the Dai-Ichi Kangyo Bank (Tokyo).

The dollar loan has to be repaid in ten years, and provides a 4-year interest-free period. Along with the organizing group and the World Bank, 60 other banks participate in offering this loan, representing nearly every important region of world finance.

The yen loan has to be repaid in 12 years, and includes a 5-year interest-free period. Besides the World Bank, 35 Japanese banks and insurance companies are participating in this financial transactions.

[Hungarian Telegraph Agency]

Preceding the formal signing of the agreement, the representatives of the banks, including Janos Fekete, the first vice president of the Hungarian National Bank, and Willi A. Wapenhans, the vice president of the World Bank, held a press conference. As the representatives of the World Bank pointed out, Hungary has never obtained a loan of this size since it became a member of the organization. However, this agreement differs from the others in other aspects as well. The practice of co-financing, this special form of extending loans, was accepted by the

international organization last year. (After initiating the program, Hungary was the first to obtain \$275 million loan.) As the vice president of the World Bank stated, the novelty of the arrangement is primarily in the conditions of repayment. The commercial banks will be the first to be repaid, and the World Bank's share (in this case, approximately \$35 million) will be repaid only subsequently. This scheme lessens the risks involved for the commercial banks. At the same time, the representatives of the World Bank continue to observe the utilization of loans. As Mr Wappenhans emphasized, this is not a special supervision, since the procedure is the same in the case of other loans as well. The cooperation of the World Bank provides increased guarantees to the commercial banks that their money will be used for economic investments.

This type of co-financing is also advantageous for the World Bank, since it uses its own resources to cover only 10-20 percent of the loan, with commercial banks contributing the remaining sum; thus, more money can be used to finance each of the programs. Naturally, one of the questions posed by the journalists was: What is Hungary's status on the international financial scene, and more generally, what is Hungary's image as a borrower? The answers revealed that in spite of the difficulties arising in 1982 the country retained its earlier position, since it fulfilled its obligations in time. The changes implemented in the interval proved that Hungary is able to service the new loans, because its export has increased. Of course, extending credit always involves a certain amount of risk, but this varies from country to country and region to region. As the representatives of the Arab Banking Corporation stated, Hungary found not only open windows but open doors when arranging this loan.

Besides the four large banks, there are an additional 60 or so smaller financial institutions on the list, among them several which have had no previous contact at all with Hungary. This also proves that the international money market considers the country's economic and fiscal state sound and the economy capable of further development.

Part of the present 385-million dollar loan will serve to realize a developmental program for the exploitation of petroleum and natural gas reserves. (In April of this year, the World Bank already contributed to this program in the form of a \$200-million direct loan to the Petroleum and Natural Gas Industries Trust.) At the same time, within the program to develop exports and restructure industrial production, about 50 domestic enterprises will be eligible for loans. The primary aim is to use this money to finance the production of cost-effective, universally marketable and competitive goods.

As Janos Fekete stated, the two programs require a total outlay of approximately \$850 million. Improvement will be measurable as early as next year; the country's profit will increase by some \$600 million. The terms of the loan are extremely favorable; the length of repayment



period in particular will make it possible to speed up the restructuring of Hungarian industry, so that more competitive goods will be exported. Talking about 1982, the vice president of the bank pointed out that the difficulties of that year have been overcome, hoping that the Hungarian economy would never face a similarly troublesome year.

In evaluating the new credit practice of the World Bank, the vice president of the Hungarian National Bank emphasized that he considers it one of the most progressive fiscal initiatives of the recent past, in making it possible for the member states to utilize the capital of commercial banks, thus obtaining funds for their developmental programs under more favorable conditions than was possible earlier. It is also expected that the commercial banks will be more ready to extend credit in this manner.

After the conclusion of the press conference, the credit agreement was formally and ceremonially signed.

12588

CSO: 2500/496

BUDAPEST BELTWAY COMPLETION PLANNED FOR 2010

Budapest MAGYAR HIRLAP in Hungarian 12 Jul 84 p 5

[Article by Agoston Braun: "Beltway Around Budapest"]

[Text] If one ever passed through the capital to get from one part of the country to another, one is familiar with the enormous effort and loss of time such an undertaking requires. That is why, whenever possible, Budapest is to be avoided. In spite of this, transit traffic reached such large proportions that, on some roads, local traffic is nearly impossible. The solution--and this is now obvious--a beltway around the city, which connects Alföld, Dunántúl and the highlands without placing any burden on the inner road network.

"This idea was conceived by the experts decades ago, but, at the time, a beltway internal to the capital was envisioned by the planners," notes László Szecsi, department head of Ministry of Transportation. "The construction of a two-level highway was contemplated along Hungarian Boulevard. The lower level was to handle city traffic, while the upper high-speed highway could have connected parts of the city and the major highways."

[Question] Could you give me an example somewhere in the world?

[Answer] To be quite honest, no. In spite of this, the design from the forties did not lose its validity until a decade ago. The 1973-74 proposal essentially contains the current M0 highway. Since then, of course, many small details have been worked out, as an example, many variations of the primary route were developed. Still, the new design, which puts the beltway outside the city, originates from the midseventies.

Connection Between Parts of the Country

[Question] I am assuming that foreign examples also support this decision.

[Answer] A similar beltway surrounds Moscow, London and Sofia. That is why when the preliminary design was completed in 1977, it attempted to incorporate all usable experience. A nearly 90 kilometer beltway from the M1 highway up to highway 11, i.e., from southern Buda up to the northern intersection of the Danube, a highway with 3 lanes in each direction, is being

constructed. And from northern Buda to the M1 highway, a double two-lane highway, i.e., a four-lane highway will be built.

[Question] This, of course, is distant future. What can we expect in this decade?

[Answer] Traffic measurement proves that the 31-kilometer section between highways M1 and M5 is the most important. True, it is too early to talk about a completed M5, but construction is going at a satisfactory pace, and thus in our plans we refer to this road by this name. Because of the above-mentioned reasons, our obligations and national situation, we are urged to give priority to the implementation of the above-mentioned section. Both M1 and M5 are part of the so-called E highway carrying international traffic, furthermore, they are part of the European north-south highway network and are counted among the highways to be constructed within the framework of the long range COMECON cooperation program.

Can Also Be Used by the Capital

National demands are not any lower. Connections between parts of the country are difficult; if one wants to avoid the capital city, the nearest bridge is in Dunafoldvar, which is, on top of everything, shared by the railroad. M0 will bring about a significant change in the traffic of the agglomeration surrounding Budapest and, in addition, connect industrial plants and city districts. Most of the preliminary plans for the first section are completed; now the authorization plans are being prepared, which will also be finished by the end of the year. The first half of the coming year will be spent on the implementation plans.

[Question] How soon will the actual road work start?

[Answer] The missing 4-lane section of the M1 highway must be completed by 1986, and thus in the second half of the year preparation for M0 begins. By 1987-88, M5 will reach Kecskemet, as a semiexpressway; connected to this, in 1987, serious work will begin on the first section of M0.

[Question] Will this section also be completed in stages?

[Answer] Yes. Prior to the construction of the 6-lane highway [i.e., 3 lanes in each direction], a four-lane highway is to be built, but the engineering structures will be layed out in a manner to minimize efforts required for the extension to the final stage. The 31 kilometers can be done within 8-10 years; based on currently available information, in 1993 and 94, traffic will pass via these roadways. Prior to this, however, in 1990, we would like to put in use a 13-kilometer section, which will extend from highway 6 to highway 50 and include a bridge across the Danube. The Budateteny and Csepel junctions will definitely provide connection between Dunantul and Alföld by avoiding downtown Budapest.

[Question] The sections mentioned also provide popular rest areas.

[Answer] Plans for M0 were prepared in a manner strictly observing environmental protection regulations. Wherever possible, the primary route is led under ground level, i.e., cut in the ground. Where this is not possible, the population is protected by noise reduction walls and plants from environmental hazards.

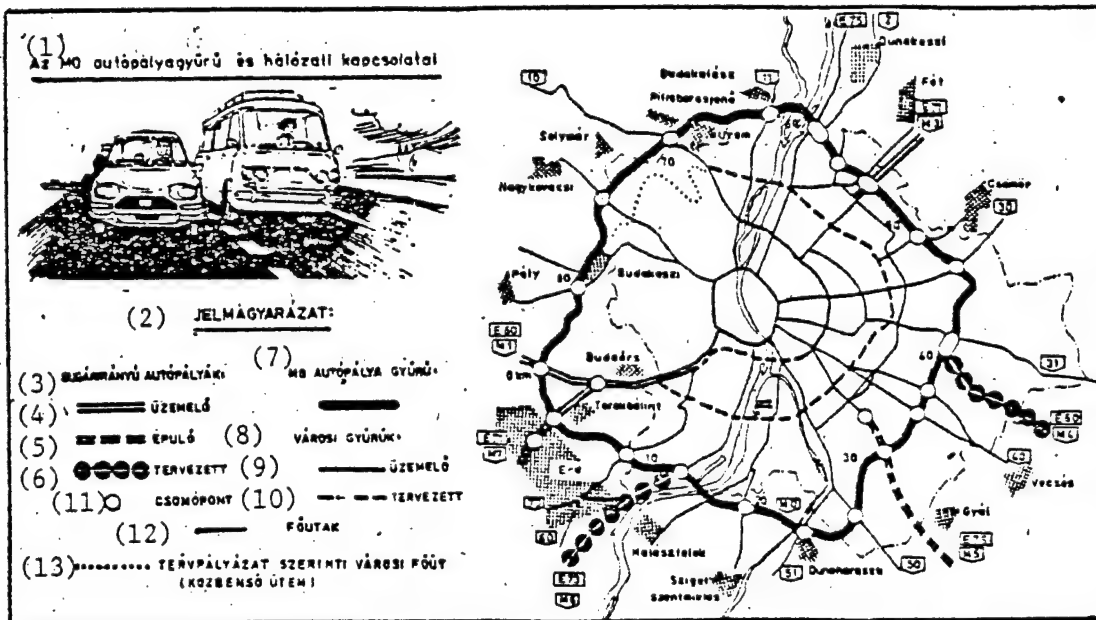
[Question] Where do you expect to continue with the work?

[Answer] Once the 13-kilometer section is completed, directly in two directions: toward M1 and M5, following this, up along the Pest side to the northern intersection of the Danube. Beside the mentioned advantages--in which we must include the significant national and international energy savings--such opportunities are considered as the connection of Ferihegy Airport traffic to the beltway, but the benefits will also be enjoyed by several communities, such as Kaposztasmegeyer, now under construction.

#### Bold Undertaking

[Question] We have not mentioned the expenses yet...

[Answer] The whole program, which also includes the highway passing through the Buda hills, will provide employment for the designers and implementers for decades. Taking everything into account, the completion of the beltway is not expected until 2010, and thus it is not possible to make a fully responsible statement on outlays for the next 25 years. I can tell you, however, that the 31-kilometer section mentioned several times before can be estimated to cost about eight billion forints, based on current prices. If approximately one-third costs this much, then the total price can also be deduced. True, a great deal of this sum must be spent on expropriations and environmental tasks, but this tendency will not change much in the future either. Not mentioning that when we reach the Buda hills, such tasks will confront us that were never to be implemented by any earlier plans.



Key:

- (1) M0 beltway and its connections
- (2) EXPLANATION OF SYMBOLS
- (3) RADIAL HIGHWAYS
- (4) IN OPERATION
- (5) UNDER CONSTRUCTION
- (6) PLANNED
- (7) M0 BELTWAY
- (8) CITY BELTWAYS
- (9) IN OPERATION
- (10) PLANNED
- (11) INTERCHANGE
- (12) MAJOR HIGHWAYS
- (13) PLANNED CITY HIGHWAY (INTERMEDIATE STAGE)

9901

CSO: 2500/473

## ENERGY CONSERVATION MEASURES DISCUSSED

Budapest HETI VILAGGAZDASAG in Hungarian No 24, 1984 pp 37-38

[Article by Istvan Illes: "Inquiry Into Rationality"]

[Text] Last year and during the first part of the current year the KNEB [Central People's Committee] examined the use of energy at more than 500 enterprises, factories, cooperatives, at the ministries and organizations of national authority responsible for the energy saving program. According to their findings the energy consumption of the people's economy still decreased last year, but there is a warning sign in the reduced number of tenders by enterprises for energy use rationalization.

Domestic consumption of energy during the second half of the 1970's had been generally on the increase, while during 1983 it was less than in 1980 by 1.5 percent. It means that last year--converting all energy resources into oil--the Hungarian people's economy required 450,000 tons oil less than in 1980.

The Central People's Control Committee (KNEB) had characterized with this summary data its observations concerning the fulfillment of the program for energy economy that has been presented to the meeting of the cabinet held on 7 June where the report was accepted. The people's controllers state that this result is due first of all to the change-over of the economic policy and further to the provisions made in this respect. At the same time great impact was exerted by the fact that the growth rate of the Hungarian economy slowed down--and as a result of the difficulties experienced in selling on the foreign markets--several branches have taken turns emphasizing the importance of less energy-intensive production activities. Within the entire industry production the ratios of energy-intensive metallurgy and the heavy chemical industry decreased, while at the same time the production of the less energy-intensive processing industry increased. Within the building material industry the production of the most energy-intensive cement industry substantially decreased. In the chemical industry the proportions of their respective productions were increased in pharmaceuticals, in intermediaries, in processed synthetic materials and in synthetic fibres. In the construction industry the proportions of the less energy-intensive activities such as basic maintenance and remodeling have increased.

The energy consumption of the population at large and the public communities --as reported by the KNEB--influenced by the central pricing and saving measures during the last three years increased to a lesser extent as compared with that of the preceding years, i.e. by 8.4 percent. The wasteful consumption generally decreased, with the exception of district heating and hot water supply, the network losses and the consumption of which still remain unreasonably large.

Newer settlements have joined the gas pipeline networks. According to the original plan by the end of the plan period, 100,000 to 120,000 dwellings should have pipeline connected and installed. The Council of Ministers had annulled in 1981 the prohibition to connect new settlements to the pipelines, and simultaneously decreed that pipeline gas provision should be accelerated. During the first phase the gas pipeline network construction was started in 12 settlements, after that 300 more settlements filed their claims to participate. By the end of last year--thanks to the financial contributions by the people involved--gas was installed in more than 130,000 dwellings.

It is common knowledge even without the inquiries by the people's controllers that the construction of the gas pipeline network does not progress troublefree. Some of those who had wanted gas have no money or not enough to pay for their section. At the same time, because of the rapidly growing number of requests, it is questionable whether there would be enough high-pressure gas pipelines available or enough capacity at gas reservoirs. Neither is the installation free of troubles--people's controllers point it out. Sometimes the licences are delayed, other times in some local situations personal interests prevail, and thus the planning and the execution are not coordinated.

The credit resources and the state subsidy possibilities having been significantly increased for the years of 1980 through 1985, new circumstances were created in the rationalization of energy. During the first two years the management organizations had filed 1,700 such applications. According to the contracts concluded in the wake of these the value of the energy involved was 7.4 billion forints in 1981 and a year thereafter it surpassed 18 billion forints. However, the people's controllers caution that last year the number of applications for energy rationalization has diminished and their examination slowed down. The total value represented by the applications that did not pass the examination amounted to several billions of forints.

In the better exploitation of the domestic energy resources--says the report--good results were achieved by increasing natural gas production and starting electric current generation at Paks. In coal production, the goals set by high level decisions were not successfully reached in 1983. The planned degree of exploitation of the geothermal and renewable energies are held back by unreliable technical solutions and economic conditions that have not developed as favorably as anticipated. For these reasons the results are rather modest.

In agreement with previous experiences the current inquiries by the people's controllers prove that a considerable proportion of the energy savings is the result of technical and organizational provisions. The results were achieved in metallurgy through the more rational operation of the furnaces, in chemical industry and in the building materials industry by further development of the respective technologies, in transportation by monetary interest establishments, respectively by making the norms stricter. In agriculture savings were attained when soil preparation was done, in an energy saving manner and natural drying methods were used.

In the course of their previous investigations the people's controllers had presented approximately 4,000 proposals to the enterprises concerning the improvement of their energy utilization. Of these 95 percent were put into action. According to the estimation made by the people's controllers the total cost of the organizational measures—requiring smaller investments, further maintenance, modernization of energy equipment and fixtures and utilization of waste materials—amounted to some 1.4 billion forints, in turn the annual savings are 900 million forints.

The report presented to the government stated that in the past years among the several changes, it was in fact the many price increases of the energy carriers that most forcefully induced the energy saving efforts concerning the energy carriers. When producers raised their prices seven times—sometimes belatedly, not always economically consistently—it widely stimulated the realization of the principal objective of the energy economy. First of all doubling of the oil price and the more moderate increase of the natural gas prices vigorously compelled the substitution of oil. Oil consumption decreased by five percent and natural gas consumption increased by 2.5 percent in 1983 in comparison to 1980.

People's controllers pointed out that when putting into effect the program for energy economy the provisions aimed at stimulating the personal interests had a more sluggish and limited influence than anticipated. The budget appropriation of 50 million forints available for rewarding performance related to energy saving actions started after January 10, 1983 had been only partially used up to 1984. As it concerns the personal stimulation of the leading workers in higher positions the results of energy economy—with the exception of the energy producers and of the enterprises of the Ministry of Construction and Urban Development—are not at all or barely apparent. The energy experts at the enterprises are frequently involved only in some less disciplined planning and management.

During the last years several measures were originated to influence the success of the energy economy by employing means used by the authorities. Useful among these were general provisions prohibiting the flagrant wastefulness, new standards for thermal insulation, at state construction enterprises and sanctions applied in the area of traffic and transportation. However, the penalties imposed in connection with the energy economy did not have any considerable preventive effect. Since 1980 in 75 simply



obvious irregularities the authorities imposed penalties in the sum total of 12 million forints. However, due to successful appeals and these penalties were reduced by about half.

The report concluded in stating that the enforcement of the regulations on penalties could only be accomplished by instituting tighter inspections. For example, the Ministry of Industry held out the prospect among others that it would assure preference to the more efficient developments, it would initiate actions to eliminate the tensions now prevalent in the background area of the industry, it would modernize the provisions of the law of the energy economy, among those the system of remuneration, it wished to increase the supervision of the fulfillment of the program for energy economy and the more consistent enforcement of responsibility.

The Minister of Transportation held out the prospect of measures for increasing the proportion of energy saving trucks, for the better utilization of the capacity serving the energy rationalization. In the area of transportation, construction and agriculture plans include developing surveying instruments, their practical utilization and more effective application. The Ministry of Agriculture and Food by various methods will introduce to wider circles the results attained in research and development.

12520

CSO: 2500/482

## PZPR ACTIVITIES, STRENGTH IN RURAL AREAS EVALUATED

Warsaw ZAGADNIENIA I MATERIAŁY in Polish No 22, 31 May-6 Jun 84 pp 19-23

[Article by Stefan Zawodzinski, head of the Agricultural Department in the PZPR Central Committee: "The Party in the Countryside"].

[Text] The implementation of our agricultural policy requires not only funds and outlays, but organizational activity and the proper political climate in rural areas as well. That is why party organizations in the countryside have an important role to play: they operate in an environment which determines the effects of the agricultural policy, since they act among the rural population, in farmers' institutions and organizations. Hence the significance of their activity in fulfilling organizational, political, and supervisory functions. Hence the need to strengthen basic party organizations in the countryside, and to enrich various forms of their impact on rural population.

## Farmers in the Party

The changes that have taken place in the party as a whole during the last 4 years did not bypass the party in rural areas, either. They were reflected, inter alia, in the numerical strength of rural party organizations. In 1979 peasants amounted to 9.6 percent of all the party membership, at present they are down to 9 percent. However, the party in rural areas, despite its diminished numerical strength, continues to be a considerable force, as there are at present some 600,000 party members in the countryside, including nearly 200,000 farmers.

It has been frequently said that the party is not active enough in rural areas, that its actions are not visible, and that at present self-management organizations have greater impact on the countryside. To research this problem more closely, the Agricultural Department of the PZPR Central Committee has surveyed basic party organizations in 22 gminas spread over 21 provinces. Obviously, no exhaustive picture can thus be drawn, but even if this—as well as party statistics nationwide—is taken into account, one might attempt some generalizations and overall conclusions.

To begin with, it should be stressed that the situation in the party in rural areas is most diversified. The causes for this diversification might be ascribed to two fundamental factors, the "historic" one and the human one.

By the "historic" factor I mean the conjuncture of conditions created in the given area throughout the entire post-war period. It is a problem most difficult to define in a few sentences. Wherever, for instance, the numerical growth of the party in the 1970's was the steepest, the current situation is usually worse, the rank-and-file decrease the greatest, the offensive spirit in the activities of party organizations weakest, etc.

It is therefore the human factor which is of prime importance for party activities, and that includes the day-to-day work of the PZPR gmina committee and its secretary, as well as the organizational work of all the gmina echelons. As the survey of PZPR gmina committees has revealed, over the course of a year a gmina committee secretary averages two meetings of rural basic party organizations weekly. In most PZPR gmina committees the gmina aktiv and the aktiv on assignment from the regional center for party work are permanently linked with specific basic party organizations; some gmina committees approach their tasks as short-term campaigns. There are PZPR gmina committees where the party membership has sharply declined over the last 4 years, and no new candidates have been admitted. But there are also PZPR gmina committees where the influx of new party adherents has exceeded the outflow.

Generally speaking, the thesis that rural basic party organizations are not overly active has been confirmed, in particular when the problem is regarded from the purely formal point of view, such as the number of meetings held, the minutes, and the resolutions. On the other hand, however, peasant party members point out in conversation that--after all--they continue to meet their neighbors on an almost daily basis, in procurement centers, milk purchasing centers, etc., and there they discuss all the problems which concern the rural population. They are right. In party work all the opportunities and possibilities of talking with the people, and of acquainting them with the party line, should be used. Obviously, that can excuse no basic party organization from fulfilling its statutory duties. But when the activity of individual members of basic party organizations is assessed, it comes out that the activity of peasant party members is, as a rule, considerable. Usually they enjoy the support of their rural communities.

This claim has been confirmed by the participation of peasant party members in electing self-government and cooperative bodies. In secret democratic elections to the provincial self-government bodies, many peasant party members have been voted in. They amount to no less than 42.9 percent. Such a high proportion of party members in self-government bodies can be explained by the prestige they enjoy in the rural communities, by their willingness not to shirk civic duties, and by their major involvement with all the problems of rural self-government.

But here, too, the situation varies, both in its territorial and branch aspects. In Pila Province, for instance, party members in all the provincial self-government bodies amount to 56.8 percent, while in Lodz Province they comprise 29.9 percent. On the other hand, in the provincial self-government bodies in provincial horticultural and apicultural cooperatives they constitute 24.5 percent, but in provincial associations of collective farms 63.8 percent.

These figures give rise to a certain reflection, and indicate a kind of political pattern, both as far as territorial divisions and various self-government organizations in the countryside are concerned. In general, however, the number of party members in self-government bodies indicates--regardless of all the variations--the considerable prestige of PZPR members.

An interesting problem is involved in party membership of farmers according to the size of farms they own. This is presented in the following table:

Farm area	Percentage of farms in that category	Percent of farmers-party members
Less than 5 ha	29.8	8.5
2-5 ha	28.9	28.2
5-10 ha	25.5	38.9
Over 10 ha	15.8	28.4

The statistics are, no doubt, oversimplified, and on their basis one can hardly draw any more far-reaching conclusions. Thus, for instance, the percentage of party members among owners of under-2-ha farms is the lowest. We have, however, no clear indication of how many farmers in that category are employed as industrial labor, adhere to the party in their workplace, and thus appear in party files as workers.

Generally speaking, however, in the category of under-5-ha farm owners the proportion of party members is statistically much lower than among those with farms of more than 5 ha. The problem requires a more profound analysis. It is most significant, since--had such trends been confirmed--one would have to pose a number of questions, and to answer them.

Why do peasants with farms in the under-5-ha category constitute a minority among those farmers who belong to the PZPR? Would the small farmers prefer to link the future prospects with industry rather than with agriculture? What is to be done in the future in order to increase party membership among farmers? Many more similar questions can be posed, and the answers would be neither easy nor unambiguous. Many of those issues were discussed at the meeting with agricultural secretaries of PZPR provincial committees, as well as at the session of the Agricultural Commission of the PZPR Central Committee. Following comprehensive debate and exchange of views, directives and conclusions have been formulated; they should be widely used in party work, above all by regional centers of party work and by PZPR gmina committees.

#### Conclusions and tasks

In each province there are gmina committees that achieve satisfactory effects of party activity in their rural areas. Their experience is not, however, properly propagated among the remaining gmina committees. It is the duty of agricultural departments, together with organizational departments, of all the

provincial committees to find out precisely how things stand in this domain, and to propagate all over their province the best forms and methods used by PZPR gmina committees.

There is also a need for more profound reconnaissance among peasants, former PZPR members, who in the last 3 years have left the party; their seniority in the party, the area of farms they own, the causes which moved them to leave the party ranks, as well as their current sociopolitical and professional postures, should be carefully considered. Such an analysis might provide many conclusions concerning party activities in the countryside and the growth of its membership. One should, above all, avoid mistakes which might later encumber the work of rural basic party organizations.

Reconnaissance is also needed among party members who live in rural areas but are employed in the cities. We have to know how many there are in general, how many workers there are among them, how many worker-peasants and white-collar employees. In practice, it might be worthwhile to get to know their abilities and their usefulness in taking part in the activities of basic party organizations in the villages they live in.

The party aktiv of regional centers of party work should be, as far as possible, uniformly distributed among all the gmina committees in their area of activity. Every rural basic party organization should have a party activist permanently assigned, with specific duties for the entire year. The ongoing implementation of these tasks, as well as the way activists discharge their duties in strengthening and promoting rural basic party organizations, should be systematically evaluated.

Particular attention should be paid to systematic work among the younger generation, including, above all, youth organizations, such as the Union of Socialist Polish Youth, the Rural Youth Union, and the People's Sports Associations. Party activity should support and inspire youth initiatives in enhancing cultural and educational activities, as well as sports and tourism, in rural communities. Initiating joint measures to promote cultural, educational, and sports activities by youth organizations, gmina offices, state farms, collective farms, "Samopomoc Chlopska" gmina cooperatives, agricultural circle cooperatives, volunteer firefighters, and rural housewives' circles, is of prime importance. Younger party members, teachers in particular, should be assigned to liaise with organizations of the Union of Socialist Polish Youth and with the Rural Youth Union.

The good experience of some PZPR gmina committees in promoting the growth of party membership in rural areas should also be mentioned. Most often it consists of systematic work with non-party people. Each PZPR gmina committee should select a group of non-party peasants who enjoy prestige in their villages, and steadily keep in touch with them, acquaint them with documents which reflect party activity in the gmina, province, and nationwide, ask their opinion on issues discussed inside the party or inspired by it, invite them to meetings and consultations organized by PZPR gmina committees, including some open plenary sessions of the PZPR gmina committees. In other words, they should be involved in various forms of civic activities, including submission of their candidatures to self-government bodies and civic organizations.

## To Enrich the Forms of Party Activity

At the same time, the rural basic party organizations should develop new forms and methods of work, to avoid recourse to traditional meetings only. Some suggestions aimed at that purpose include, inter alia, question-and-answer panels organized in fall and winter for all village residents, with the participation of a qualified aktiv from the gmina, region, or province level. The basic party organizations should stay in touch with veterans of the workers and peasants movement who live in their areas, invite them to their meetings, organize their talks with younger people. Organizing meetings with interesting people, open to all the village population, might also be a good idea.

Good political effects are achieved whenever basic party organizations try to solve problems which rankle all villagers, and to initiate social deeds. Inviting the rural aktiv--the village head, chairman of the farmers' circle, chairwoman of the rural housewives' circle, chairperson of the local youth organization, etc.--to more important meetings of the basic party organization, or of its executive board, might also be recommended. This also applies to convening joint meetings of rural basic party organizations with their equivalents in schools, state farms, or collective farms. There are many topics for joint discussion, many tasks to be undertaken jointly. The party in rural areas cannot be divided into separate basic party organizations; all of them should cooperate in all the important matters, like troops of the same army.

That is why the self-imposed isolation of basic party organizations should be overcome; more initiative is needed for inspiring actions of interest to the population as a whole, and to other party organizations. Nothing prevents inviting representatives of party organizations operating in gmina-level bodies that serve the countryside and agriculture, such as the gmina office, cooperative of farmers' circle, gmina cooperative, etc., to meetings of the basic party organization. Such meetings should debate problems involved in the quality of services rendered to farms or satisfying the farmers' needs by economic and administrative units of the gmina. One should follow the people's complaints and demands, eradicate evil, be alert to maintaining the socialist principle of social justice.

In recent years the wonderful movement of linkage between the city and the countryside has ebbed. The cooperation between gminas and workplaces should be revived and enhanced. This will contribute to promoting the worker-peasant alliance, to better understanding of agricultural problems among the workers and of workplace affairs among the farmers. In some provinces, which have maintained such contacts, that form of activity has brought about excellent effects, provided, obviously, it is properly organized.

Party members frequently remark that their basic party organizations provide them solely with tasks and duties, but show no interest in their family or professional situation, and give no help when a party member is in need of it. It also happens that party members who advocate correct but unpopular causes are isolated, get no political support from their basic party organizations or from the PZPR gmina committee. This is an important issue.

On the other hand, many problems solved and resolved by a basic party organization (or thanks to its intervention) remain known to the basic party organization only. The mass media--in particular at the provincial level--should propagate cases of specific action by basic party organizations, of problems which thanks to their initiative have been solved in the interest of the rural population. They should also present outstanding farmers, party members, whose productive accomplishments and civic activities should be duly acknowledged.

The current party activity in rural self-government bodies has been positively assessed. It should be continued and improved. Inviting non-party self-government activists to participate in party groups is also of prime importance.

The PZPR provincial committees, and regional centers of party work as well, should work out distinct forms and methods of work among party members directly involved in operations linked to the countryside and to farmers (consulting, procurement, and veterinary services; the gmina agricultural service; teachers, physicians, etc.). Their activities should aim at shaping the conviction that--while fulfilling their everyday professional duties--they have to initiate talks on the party line and role as well. They should constitute an active team of agitators among peasants and in the countryside.

The PZPR provincial committees should pay particular attention to party apparatus staff at all levels maintaining close links with rural communities. The practice of party work should embrace the principle of organizing meetings of gmina committee employees or regional centers of party work activities with peasants in their villages and throughout all the places where farmers congregate (gmina cooperative outlets, cattle or grain procurement centers, bases of the Farmers Circles Cooperative, milk procurement centers, etc.).

Following these conclusions and remarks, as well as their own reflections, the agricultural departments in the PZPR provincial committees, acting jointly with their organizations departments, are to prepare, by the end of July, specific, realistic plans for the activization of rural basic party organizations and for party recruitment in the countryside. Such plans should be endorsed by the agricultural commissions of the PZPR provincial committees.

It might be well to convene joint sessions of the agricultural commissions and the intraparty commissions of the PZPR provincial committees, devoted to these issues. A most important matter is at stake here: the strengthening and activization of the party in rural areas, in order to prepare the correct and consistent implementation of the agricultural policy, and to solve effectively the complex problems of the countryside, of agriculture, and of the food economy.

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EMOLUMENT TERMED 'WEAKEST POINT' OF ECONOMIC REFORM

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[Article by Ryszard Maraszek: "On the Emoluments Mechanism Under Reform Conditions"]

[Text] The incentives mechanism, and particularly the mechanism of emoluments creation, is treated generally as a factor that determines the success of the reform. It ought to represent its "carrying capacity," determining the attainment of the economic and social goals placed before the reform. In the main, the effectiveness of the work of enterprises and the employees working in them depends upon the emoluments mechanism. This mechanism may stimulate productive work and foster the development of enterprise and initiative or it may hinder such actions.

Thus far, the emoluments creation mechanism, in the opinion of most people, is the weakest link of the reform that is underway.

Let us try to find the causes of this situation.

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The price creation mechanism functions on two planes that may be defined as the external and internal. The first concerns the methods of supplying enterprises with an emoluments fund and the rules of creating this fund tied in with the results attained by enterprises. The second refers to the principles of employee emoluments depending upon their work input. These two causes, the external and internal, are closely interwoven, and changes in one of them affect the other. This fact ought to be considered in the building of the incentives mechanism if it is to be cohesive and effective. To date, however, economic reform solutions focus primarily upon the external plane of the incentives mechanism.

The law on the financial management of enterprises states that "the enterprise determines independently the amount of funds for emoluments within the framework of its financial potential and according to the needs of its activity."<sup>1</sup> At the same time, "all emoluments, except for awards and premiums paid out of the workforce fund created from profits for distribution, are related to the costs of the particular type of enterprise activity."<sup>2</sup>



The previously quoted statements show the indirect nature of the link between emoluments funds and the economic results attained by the enterprise. Funds for emoluments are not determined by the use of standards, but depend upon the financial potential of the enterprise. As never before, the amount of these funds has become contingent upon the efficiency of the enterprise economic mechanism.

As we know however, under "easy money" conditions, this did not stop an excessive increase in wages. This increase was not contingent upon an increase in labor productivity, contradicting the formula giving enterprises much freedom to create emoluments funds in which wages were to be a factor stimulating improved management efficiency.

In the initial period of implementation of the reform, enterprises did not adapt their internal incentives mechanisms to the new conditions of operation. This area also lacked the appropriate central level regulations. The first solutions in this field were embarked upon at the end of June 1982. In accordance with Council of Ministers Resolution No 135, enterprises obtained the right to create their own table of wages within the framework of centrally established maximum ranges. At the same time, the minimum and maximum rates were setup higher than before. The new system of rates included changes allowing the best qualified workers and those that do the heaviest work to obtain higher wages.

Thus, better possibilities were created for an enterprise to set up independently its own emoluments mechanism taking into account its particular conditions and needs. Enterprises received autonomy in the area of selecting the forms of wages and the use of material incentives, based on the emoluments rules they developed independently. Consequently, it is paradoxical that, despite the wage autonomy of enterprises, they did not make proper use of their autonomy to increase the incentives function of emoluments, except in a few cases. In practice, the previously mentioned resolution led to a general, for the most part "even" wage increase that was treated as a "state" increase tied in primarily with the increase in the cost of living. This deepened the gap between wages and work, thereby failing to give employees incentives for working better and more productively.

The lack of improvement in using wages as an incentive also was impacted on by the improper internal structure of emoluments characterized by a low share of earnings for work and high contributions for benefits that were tied in only with the very fact of employment. The wage operation conducted as a result of Council of Ministers Resolution No 135 did not yield the expected results in this field: it did not bring about a deeper change in the internal structure of emoluments in enterprises or help to set in order labor standards.

Public opinion studies show that society assesses the current wage system to be a poor one. At the same time, however, society has shown little interest in proposals for improving it. This is shown by the negligible interest in the materials for discussion contained in the brochure "How Much? For Whom? For What?" The question "For What?" has practically been ignored, according to the Ministry of Labor, Wages and Social Affairs.<sup>3</sup>

Thus, if there was no general reform of emoluments principles in 1982 and 1983, this was due to a lack of greater interest in the government proposals and the differences of opinion on this matter. There was also the obstacle created by the fear that a wage reform can increase pressure towards the growth of emoluments, worsening inflationary processes.

Despite this wariness on the part of the central authorities, enterprises still put into effect considerable wage increases. The greatest increases were noted in the fourth quarter of 1982. For example: in December 1982, the average wage in socialized industry rose by nearly one-fourth compared with the previous month. True, the growth of emoluments was less rapid in 1983, but it still exceeded planned assumptions nearly two-fold. The greatest danger was and is that increases in labor productivity and production productivity have not kept pace with the increase in emoluments. This is shown by the following data regarding socialized industry:

Table 1. Growth Rate of Wages, Productivity and Production From 1982-1984

Categories	Growth Rate		
	1982	1983	1984 (first quarter)
Wages	156.4	126.2	126.6
Productivity	104.6	107.8	104.1
Production	97.5	106.7	103.7

The table shows that, despite the improvement gained in 1983 over 1982, the ratios between wages and labor productivity and production were still unfavorable, and even worsened to some extent in the first quarter of 1984. This did not help to curb inflation. By the same token, it could not help to increase incentives for most productive work, especially since it is not nominal, but real wage increases that determine incentives in the final analysis.

Changes made in the area of streamlining the incentives mechanism in 1982-1983 were highly unsatisfactory. The actions of central organs in this area were incomplete and uncoordinated, and sometimes even contradictory. A considerable number of enterprises did not make use of the possibilities that had been created for streamlining the internal incentives mechanisms by RM [Council of Ministers] Resolution No 135. The notion that these possibilities were restricted by the labor law regulations then in effect is invalid. What mattered here instead was the passive attitude of the majority of enterprise directors that awaited decisions from superiors regarding their internal wage principles.

Given the lack of effectiveness of the impact of wages on employees, the internal incentives mechanisms were enriched by benefits in kind, in many cases. In this way, enterprises tended to defend themselves against losing employees.

Obviously not all enterprises adopted the position of waiting for the authorities to propose wage systems. Not waiting to be "prompted" by the authorities, they developed and implemented internal incentives mechanisms. These included the Radom RADOSKOR RZPS [Radom Leather Industry Plant], the Lodz Defenders of Peace LZPB [expansion unavailable] and the Brzeg EMA-BESEL FSE [expansion unavailable]. In these enterprises there were improved work results, especially in the area of increased productivity and the use of work time.

It is a positive sign that more and more enterprises are embarking upon similar initiatives for the purpose of developing internal emoluments mechanisms.

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The contribution to the State Vocational Activization Fund [PFAZ], ushered in along with the reform, impacts upon the shape of emoluments in enterprises. The assumption is that it should function to regulate the level of emoluments. This particularly concerns limiting an excessive wage increase and guarding against the appearance of disproportions between the various enterprises, as well as regulating the distribution of profit for workforce awards and the enterprise development fund.

In consideration of this (and of the great financial differences among enterprises), in 1982 a formula was adopted based on a considerable, progressive contribution on the increase in the average wage beyond a threshold free from such a contribution. This threshold, combined with profits remunerations and the reduction emanating from reduced employment, was set at 15 percent. This amount was made up of the following: 3 percent due to the increase in emoluments calculated into costs, a 5-percent reduction due to reduced employment and 7 percent due to increased emoluments issuing from profit. In the case of emoluments funds calculated into production costs, this debt was progressive in nature and was calculated by the compounding method. It took effect when 3 percent of the increase in the average wage was exceeded, and was set at the rate of 25 percent at this level. It rose to 400 percent when the increase in the average wage exceeded 8 percent.

Enterprises that reduced employment received a reduction in the PFAZ contribution. For every 1 percent decrease in employment, the threshold free from contribution rose by 1 percent, up to 5 percent. The purpose of this reduction was to create incentives for rationalizing employment and for obtaining conditions allowing employees performing the same work with reduced employment to receive higher wages.

The increases in emoluments emanating from profits available for distribution were subject to a progressive contribution. The increase in the average remuneration and bonus compared with the average 1981 emolument--up to 7 percent--was free from any contribution to the PFAZ. An increase of 7 to 8 percent was subject to a 200 percent contribution and an increase of more than 8 percent was subject to a contribution of up to 400 percent.

This formula for taxing the increase in the average emoluments and profits remunerations has evoked much criticism, contention and passion in the past and present. In general, its shortcomings are exaggerated and its virtues are ignored. We may presume that, if the progressive nature of the contribution were not applied so strongly, the present wage-price inflation would be even greater. On the other hand, some people say that the 15-percent threshold of possibility of the increase in the average emoluments without a PFAZ contribution is too small, given the existing money-market situation. Some PFAZ critics go still further to treat it as a sort of new limit and compare it with the previously operative system of limits in the wage fund increase.

This view is untenable, if for no other reason than because taxing the increase in emoluments is not the same thing as the individualized, stiff wage limit established for enterprises in the past.

Nonetheless, it is a fact that the formula of contributions into the PFAZ fund does have its drawbacks. The most important ones include:

- the increase in emoluments may take place via a price increase without an increase in production or even with a production decline (if, for example, an enterprise reduces production and employment due to a shortage of materials, wages may still be increased without the payment of the PFAZ tax);
- a weakening of the incentives impact toward effective enterprise management (at the upper rates of the tax), since it does not pay to increase production and reduce production costs when a certain limit of the emoluments increase has been exceeded because very little of what is saved remains for the workforce;
- it does not incline enterprises to rationalize employment, but favors keeping it at an excessive level (this is in spite of the 5-percent reduction enabling a wage increase with reduced employment).

The tax on the increase in the average emolument was used in the opposite direction. Enterprises aimed towards increasing the number of low qualified and low paid workers artificially in order to raise the wages of other employees and to avoid progressive payments into the PFAZ, since this kept the average wage at the standard. The fact that such practices were used is shown by the fact that in 1982, only about 35 percent of revenues payable by enterprises into the PFAZ were realized. This meant that enterprises played the game and learned how to adjust even to the generally criticized system of PFAZ contributions.

Some of the previously noted shortcomings were eliminated in part in 1983. The changes made in the method of structuring PFAZ contributions consisted primarily of a departure from the formula of making the amount of the tax contingent upon the increase in the average wage. The concept of the use of the average wage to calculate the amount of the tax was dropped and the concept of the amount of emoluments was introduced. The 3-percent threshold for calculating the minimum contribution was lifted and a movable threshold based on production results was instituted. The new formula bases the increase in the amount of emoluments free from the tax on a production increase multiplied by the correction factor of 0.5.

There are those that say that a 0.5 correction factor is too high given the current market situation, especially since similar indexes used in the past often were lower. In 1981, in accordance with RM Resolution No 118/80, a correction factor of 0.3 was used, and in the modified WOG [Large Economic Organization] it was still lower.

Last year, the scale of progression of the tax in the major intervals was reduced from 400 percent to 300 percent, both in the case of the increase in the amount of emoluments (previously the average wages) and in the payment of profits remunerations.

Basing the increase in the amount of worker emoluments on the production increase and adopting this increase as the basis for determining the threshold free from the tax has created the premises for rationalizing employment and differentiating individual wages commensurable with work input. This should foster the elimination of such negative phenomena as the maintaining of excessive employment in enterprises and the employment of low paid workers and it should favor the elimination of employment increases and the attainment of production increases through increased labor productivity.

It is essential to note here that when the increase in the amount of wages is tied in with a production increase, there is the danger that enterprises will be disinclined from increasing production through increasing employment. Enterprises are not interested in this, since it means dividing the wage fund and wage fund increases among a greater number of employees, which may not mean an increase in individual wages at all. Thus, the reverse paradox may occur in which it will be possible to increase average wages while reducing production.

Such a situation arises when a decline in production occurs as a result of reduced employment, while labor productivity remains the same. Let us look at the following example. Production declines in an enterprise by 10 percent; meanwhile, the level of labor productivity has not changed, making it necessary to reduce employment by the same amount as the production decline, or 10 percent. If we multiply 10 percent by the correction factor of 0.5 we obtain the amount of 5 percent, the amount by which the total wages of all those employed in the enterprise must be reduced. Since the number of those employed has dropped by 10 percent, and the total wages have dropped by only 5 percent, it is possible to increase the average emoluments for those remaining in the enterprise by the difference between 10 percent less 5 percent, or 5 percent. Hence the paradox in which a production decline of 10 percent means an increase in the average individual emolument of 5 percent.

The situation would change if we raised the correction factor. A factor equal to one and the unchanged productivity of the enterprise in a production decline prevents the possibility of an increase in the average wage, but merely maintains it at the previous level. The situation would improve further if this factor were greater than one. Then the enterprise would not find it profitable to reduce production, since this would impact unfavorably on the level of the average wages of those employed therein. It is too bad that such a solution was not envisaged when the system of PFAZ taxes was

modified. Of course, we may assume that enterprises, being aware of the situation of the entire economy, will not wish to drop production. But this is only a kind of wishful thinking, and the mechanism of economic impact on enterprises cannot be such if we wish it to be efficient and effective.

The controlling influence on enterprises brings about the possibility of raising the correction factor that determines the increase in the amount of emoluments free from the PFAZ contribution from 0.5 to 0.8. The purpose of this is to equalize the wage conditions of management in particular enterprises. Thus, a higher correction factor should be used for those enterprises where production capacities are already largely utilized or those where the increase in production is very difficult to achieve.

As the practice of 1982-1983 shows, the higher correction factor was quite universally in use (the desire was to use it almost everywhere), encompassing 40 percent of enterprises. Enterprises struggled hard to increase the factor, using to this end the legal guarantees emanating from RM decisions made to stimulate an increase in production, particularly export production.

In many cases, the higher correction factors led to wage increases, hastening the growth of demand inflation. An especially unfavorable occurrence was the granting of reductions based often not on the objective cognition of the reality that existed in an enterprise, but on personal familiarity and parochialism. This phenomenon was exacerbated by the fact that many of the valid reasons for granting reductions are unclear, creating a field for bargaining and arbitrary decisionmaking.

This situation should be changed. The maximum possible stability and clarity of the PFAZ taxation system are indispensable, for only in this way can the tendencies occurring in enterprises toward giving out all funds for emoluments at the end of the year so as to create a favorable enterprise base for the following year be counteracted. The year-end base was used to calculate the so-called threshold volume for the increase in the wage fund, which volume was not subject to the PFAZ contribution. Although such actions were profitable for enterprises, fundamentally they increased inflation and they were in conflict with the interest of society in general.

Changes in the PFAZ tax instituted in 1984 should minimize these unfavorable practices. One such change alters the base for calculating the tax, which now will include not the totality of funds for emoluments expended during the previous year, but only that part that was not covered by the PFAZ tax. The PFAZ contribution also may be manipulated to a limited extent through the possibility of creating a reserve wage fund as the difference between the sum that may be paid out untaxed and the sum actually paid out. This should create opportunities for enterprises to maintain their continuity of emoluments for "hard times." In light of the experiences with similar reserves under the WOG system, however, the certainty of this is questionable.

The analyses that have been made show that, in the area of PFAZ taxes, the solutions that have been adopted tie in funds for emoluments with the



production implemented by an enterprise. This is a positive phenomenon. Nonetheless, experiences from 1982-1983 show that this tax did not serve sufficiently to regulate the increase in emoluments. The reason for this was that the envisaged wage increase that was not justified in the economic results obtained by enterprises did not take place. Despite this, it is advisable to continue PFAZ contributions for the present and probably for the near future as a limiter of excessive wage increases and as a regulator of the proportions of emoluments among the various enterprises.

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The economic reform assumes the creation of strong incentives mechanisms and makes the wage level contingent upon work input. Attempts to implement this assumption in 1982-1983 did not yield in full the expected results. It was almost universally true that wages commensurate with input represented only about 40 percent of all emoluments. The rest of emoluments often were made up of over a dozen extras not related directly to work results. The minimal share of wages paid for work done in the emoluments structure could not stimulate employee workforces to work more productively. That is why it is so necessary that these proportions be changed. Solutions emanating from the law adopted by the Sejm in January 1984, concerning the principles of creation of plant emoluments systems, aim toward this end. In the main, they amount to changes to be made in the emoluments structure, tying them in more closely with the quantity and quality of services rendered. This will make it necessary to reduce the share of various kinds of components in employee earnings.

The new emoluments rules are to be introduced on a voluntary basis. However, in order for an enterprise to put a new wage system into effect, it must fulfill several conditions.

This is valid from an economic viewpoint. Will it not, however, discourage enterprises from shifting to the new principles of emoluments? This is especially so since they must receive a positive opinion in this regard from the founding organ and the approval of the minister of labor, wages and social affairs. Moreover, the introduction of the new principles will require the enterprise to perform many labor-intensive activities. In particular, these concern verifying labor standards that are very lax or obsolete. The new emoluments mechanism is to be introduced in the form of an understanding concluded between the trade union organ and the director of the enterprise, who has the duty to poll the opinions of the organs of workforce self-government. This may cause a conflict of interests and may result in long-term negotiations and even clashes.

There is considerable fear that the new principles of emoluments may lead to a wage increase alone without the proper link to work input. This would be tantamount to spiraling inflationary processes. On the other hand, it is unlikely that a reform of emoluments is possible without their increase, since no one is willing to cut wages. However, low work productivity, uneconomical management and poor workmanship can no longer be tolerated.

The harmonious and consistent work of enterprise directors, the workforce self-government and sociopolitical organizations is needed to eliminate these negative phenomena. Consistent use must be made of the principle of bidirectional motivation: both "up" and "down," meaning that there will be higher pay for better work and lower pay for poorer work.

Concrete solutions in this area ought to have the purpose of increasing production and improving production quality. The qualitative and quantitative elements must work together. This is all the more essential in that questions of quality have been undervalued in Poland, especially in recent years. This phenomenon is confirmed by the more and more evident decline in the quality of products manufactured and services rendered.

Moreover, with regard to an increase in production, we should emphasize that such an increase should be based on the priority production growth of those goods that directly serve the needs of society. Thus, enterprises that produce for the market should be given preference. As a rule, these are weaker units organizationally, technically and economically than those that manufacture procurement-investment products. Thus, there is the danger that the latter will implement more rapidly the new wage principles, leading to monetary outlays that are not covered by deliveries of consumer goods, thus increasing inflation and fostering the fluctuation of the workforce. Such negative phenomena should be averted through the proper control of the processes of shifting to the new principles of emoluments for the various kinds of enterprises.

A critical solution in the aforementioned law is the statement that enterprises will be able to introduce the new principles of emoluments exclusively within the framework of the emoluments funds in their possession. At the same time, within the bounds of these funds, enterprises will carry out autonomously "(...) a plant wage policy, establishing in particular the make-up of emoluments, the forms of remuneration and the principles of granting emoluments and their amount."<sup>5</sup> In this way enterprises will obtain far-reaching powers to set up their own principles of emoluments in conjunction with wage tables and rates systems, as well as the generally proposed law for setting the upper wage rate.

This should create for enterprises the possibility of developing and applying such incentives systems as would cause wages to act as an incentive. What is important here is that the enterprise take its own specific nature into account when setting up the new principles of emoluments. The technical, organizational and social conditions of production differ from enterprise to enterprise. The growth of enterprise rights in establishing a wage system should serve to simplify this system. This may be obtained above all if the enterprise limits significantly the components of emoluments that are not tied in with work results. This will create a simpler system that is more comprehensible to workers.

Employees should see the interdependence between the amount of earnings and work performed. Only in this way will it be possible to uphold the conviction that the wages of employees depend primarily upon them, upon their work.



Furthermore, the plant emoluments system should be so constructed as to encourage workers to raise their qualifications and to advance. This does not mean only vertical advancement, however. Lateral advancement always seems to be underrated by us. For example, one may continue to be employed in the same position, but may increase his qualifications and work harder and thus will be more productive. For this he should receive higher wages. Such an approach may free up innovative attitudes among employees and may foster their actions toward more efficient work and production.

Despite the fact that the law passed in January 1984 is a significant step in the direction of realizing the principle of distribution according to work quality and quantity, this does not resolve all wage problems. We still lack comprehensive assumptions of central wage policy and the methods for implementing such policy that would define above all the growth rate of wages compared with an increase in labor productivity and the proportions of emoluments in the sector-subsector structure and between the production and nonproduction spheres. These issues must be regulated as soon as possible. In the socialist state, the central authorities must impact upon the wage structure based upon uniform criteria emanating from the principle: to each according to his work input. Wage policy must foster the unification of individual and enterprise interests with the interests of society in general. It must create effective barriers curbing parochialist tendencies and sometimes even egoistic tendencies, as numerous examples indicate. This is a difficult task, but it is one of tremendous social responsibility. The proper solution of this task will be fostered by the observance of ironclad consistency in the payment of concrete work results alone; the new systems of emoluments should create the appropriate conditions for this.

The involvement of the greatest possible number of workers in preparing the new systems likewise should serve this end. Plant wage systems should not be creatures developed in the hush of offices in order to surprise people. On the contrary, enterprise workforces should participate in developing them. In this way, the economic reform assumptions will be able to be carried over to factory auditoriums and particular employees. This in turn can play a significant role in the obtaining of the indispensable support of society by the reform. This is important since it will have the consequence of determining the success of the economic reform.

#### FOOTNOTES

1. "Law Dated 26 February 1982, Concerning the Financial Management of State Enterprises," DZIENNIK USTAW, PRL [Polish People's Republic] No 7, item 54, article 11.
2. Ibid., article 13.
3. See: "Kierunki polityki plac w latach 1983-1985" [Directions of Wage Policy From 1983-1985], Ministry of Labor, Wages and Social Affairs, Warsaw 1983, p 15. Here I ignore the fact that the questions are posed in the wrong order. The question: for what? should not be placed at the end.
4. See: "Law Dated 26 January 1984, Concerning the Principles of Creation of Plant Emoluments Systems," DZIENNIK USTAW PRL, No 5, item 25, article 3.
5. Ibid., article 7.